SOMERSET COUNTY COUNCIL
STATEMENT OF ACCOUNTS 2010/11

UNAUDITED ACCOUNTS FOR APPROVAL

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SOMERSET County Council

Foreword from the Chief Financial Officer

I am pleased to present Somerset County Council's Statement of Accounts for 2010/11. This document, together with our Annual Report and many of the plans we have to produce by law, provide a commentary on our financial performance and how our services are performing. Making sure we are accountable for what we do is an extremely important part of our work, and our financial statements help show how your money has been used.

We value and celebrate cultural and social differences. Our equal opportunities promise is to provide all services of equal quality, which meet your needs and fulfil your rights. You can expect us to treat you fairly with respect and dignity, and to understand your needs, whatever your background.

Kevin Nacey CPFA

Service Director – Finance & Property

30 June 2011

Contents

Chief Financial Officer’s introduction

This section highlights some of the most important matters reported in the accounts and comments on any issues that have had a major effect on our finances.

Introduction

The annual Statement of Accounts sets out a summary of our financial affairs for 2010/11 and shows our financial position on 31 March 2011. It includes the following statements and accounts:

- Movement in Reserves Statement;
- Comprehensive Income and Expenditure Statement;
- Balance Sheet;
- Cash Flow statement;
- Group accounts;
- Pension fund accounts.

We use some technical terms in these accounts, which we have explained in the glossary on page 127.

Important developments this year

Format of the accounts and accounting policies

This is the first year in which we have produced our accounts under the new CIPFA Code of Practice on Local Authority Accounting, which has replaced their Statement of Recommended Practice (SORP). This code reflects the recent changes to the International Financial Reporting Standards (IFRS). By keeping to this code, we are working in line with the Government and the NHS. The move to International Financial Reporting Standards has resulted in a great deal of restatement within our accounts. For the most part, we are required to treat the standards as if they have always applied. This means that we have had to restate the previous two years’ Balance Sheets and the notes that apply to them. It has also meant that the other primary statements have had to be restated. Note 1 to the accounts describes in detail the changes that have been made.

Budget Cuts

Until now, Local Government has largely been protected from the economic downturn due to our annual funding from Government being announced some time in advance. However, the election of the Coalition Government signalled the start of a new leaner era for Local Government, with significantly reduced Government funding available. There were cuts of nearly £10 million to our 2010/11 funding – several months into the year – announced as part of the ‘emergency budget’.

The Government indicated further significant reductions to our future Government funding in October 2010 through the Comprehensive Spending Review. However, the exact details of these would not be known until December 2010. This left very little time to ensure that we found sufficient savings to live within our funding when setting the budget in February 2011. We therefore sought approval in November 2010, ahead of knowing our final funding levels, to begin implementing some of the major changes required to achieve the significant savings in time for the start of the new financial year.

The Local Government Finance Settlement in December 2010 confirmed our expectations; over £22 million or 12.7% reduction in funding for 2011/12, and a further £10 million or 6.6% reduction in 2012/13. The February 2011 County Council meeting approved the £34 million of savings required to balance the Authority's budget.

However, this Settlement also signalled a major change to the nature of capital funding, away from the much maligned 'Supported Borrowing' allocations in favour of grant funding. This will significantly reduce the ongoing impact of capital investment on the revenue budget.

Redundancies

In anticipation of the significant reductions in Government funding, we launched a search for staff who would like to take voluntary redundancy. The business case for each volunteer was then reviewed to identify where it would be beneficial in the interests of the Council for the Authority to approve their redundancy. Given the numbers showing an interest, it also allowed us some flexibility to be able to let some staff leave posts in services not being cut and backfill with staff from services that were being cut, avoiding compulsory redundancies as much as possible.

By the end of the financial year, 565 posts had been cut, of which almost 300 left the Authority through voluntary redundancy at a cost of £6.6 million. A further 17 were made redundant compulsorily. The remaining cuts have come through the authority putting in place a recruitment freeze meaning many vacant posts will not be filled.

It is likely that similar numbers of staff will leave over the next couple of years, as our Government funding continues to reduce significantly.

SAP – our new financial system and our system of buying in goods and services

Since its introduction in April 2009, our financial system (SAP) has proved difficult to use effectively. Despite a number of SAP experts helping us resolve a number of issues, finance staff in particular continue to struggle with the poor initial set up. Whilst some improvements have been made to the system, work continues to resolve the remaining issues. It has been a much more stable year but improvements are still required so we can reduce our dependency upon spreadsheets and access our information quicker. The speed of the system and management information must still be improved so that budget holders can access their own reports.

Schools converting to Academy status

During 2009/10, the Government introduced the option for schools rated by Ofsted as "outstanding" or "good with outstanding features" to convert to Academy status. Academies are publicly funded independent schools and therefore no longer form part of Somerset County Council's accounts. Three Somerset secondary schools applied to convert from 1st September 2010, Chard Holyrood, Ladymead (merged with St Augustine of Canterbury to form Taunton Academy) and Huish Episcopi. They currently have "tenancies at will". When the legal formalities have been completed they will have full leases.

It is expected that many more of our schools will convert to Academies during the current year and in future years, having a significant impact upon our finances and management of services to schools.

Revenue spending in 2010/11

In February 2010, we agreed our budget for 2010/11 at £310.8 million. This resulted in a band-D council tax of £1,027.30, which is the same as in 2009/10.

The following table shows that our actual spending was £308.5 million against the budget of £310.8 million. These figures are based on directorate responsibilities, rather than the total cost of providing services (including charges for support services, using assets, and adjustments to show the true cost of providing pensions to employees), which is used in the income and expenditure account on page 37.

Directorate	2010/11 budget £millions	2010/11 actual spending £millions	Difference £millions	Difference %
Children's services	95.7	65.3	-30.4	-31.8
Community services	154.1	149.6	-4.5	-2.9
Environment	61.9	61.4	-0.5	-0.8
Resources	26.3	29.0	2.7	10.3
	338.0	**305.3**	**-32.7**	**-9.7**
Non-service items (central costs, such as bank charges, that cannot be linked to a particular service)	6.0	3.2	-2.8	-46.7
	344.0	**308.5**	**-35.5**	**-10.3**
Transfer to or from (-):				
the carry-forward fund	-33.9	-0.9	33.0	
revenue reserves which we have set aside	-0.8	-0.7	0.1	
the capital fund	0.5	0.1	-0.4	
general reserves	1.0	3.8	2.8	
	310.8	**310.8**	**-**	
Funded by:				
Revenue Support Grant	-13.9	-13.9	-	
Business Rates	-96.0	-96.0	-	
Council Tax	-200.9	-200.9	-	
	-310.8	**-310.8**	**-**	

Carry forward fund

Services are allowed to spend up to their approved budgets. In 2010/11, this was £338.0 million. In previous years, council services were allowed to save any amounts they had not spent to use in future years. This is called the 'carry forward fund'. Services also have other reserves, which they have set aside for certain purposes. On top of this, some spending (for items outside our services' control) is funded from general reserves. The table on page 4 shows how the carry forward fund changed during the year.

Carry forward fund	2010/11 £millions	2010/11 £millions
Balance on 1 April 2010		31.863
Add: 2009/10 overspending funded from general reserves		2.606
Add: overspending managed by services		1.796
		36.265
Less: 2010/11 approved use of carry-forward reserves		-35.697
		0.568
Net service underspending 2010/11	32.974	
Transferred to other revenue reserves	0.187	
School Loans Scheme repayments and advances	0.159	
Underspending transferred to the carry forward fund		33.320
Carry-forward fund on 31 March 2011		33.888

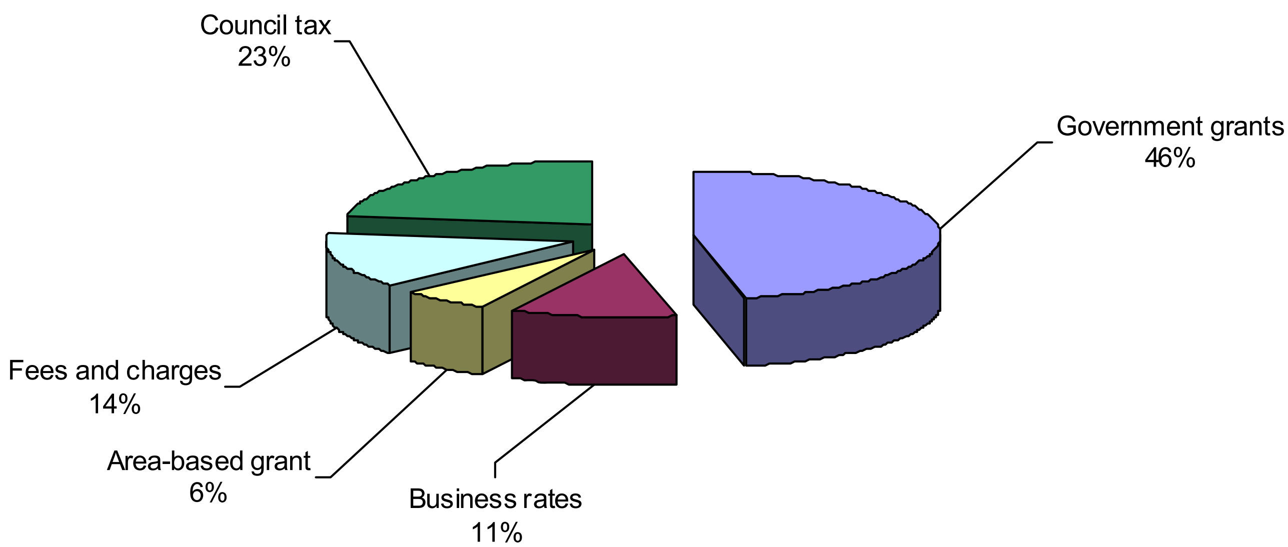
Of the £33.888 million total carried forward, £30.083 million is for individual school budgets and cannot be used for anything else. This is a decrease of £0.525 million over the previous year. The level is partly because all schools receive a special grant, which many are saving up to pay for future building work, and also because schools can now carry forward their under spending from the Standards Fund grant. The other £3.805 million relates to carry forwards for particular services and of which £2.513 is to be returned to General Reserves.

Financing

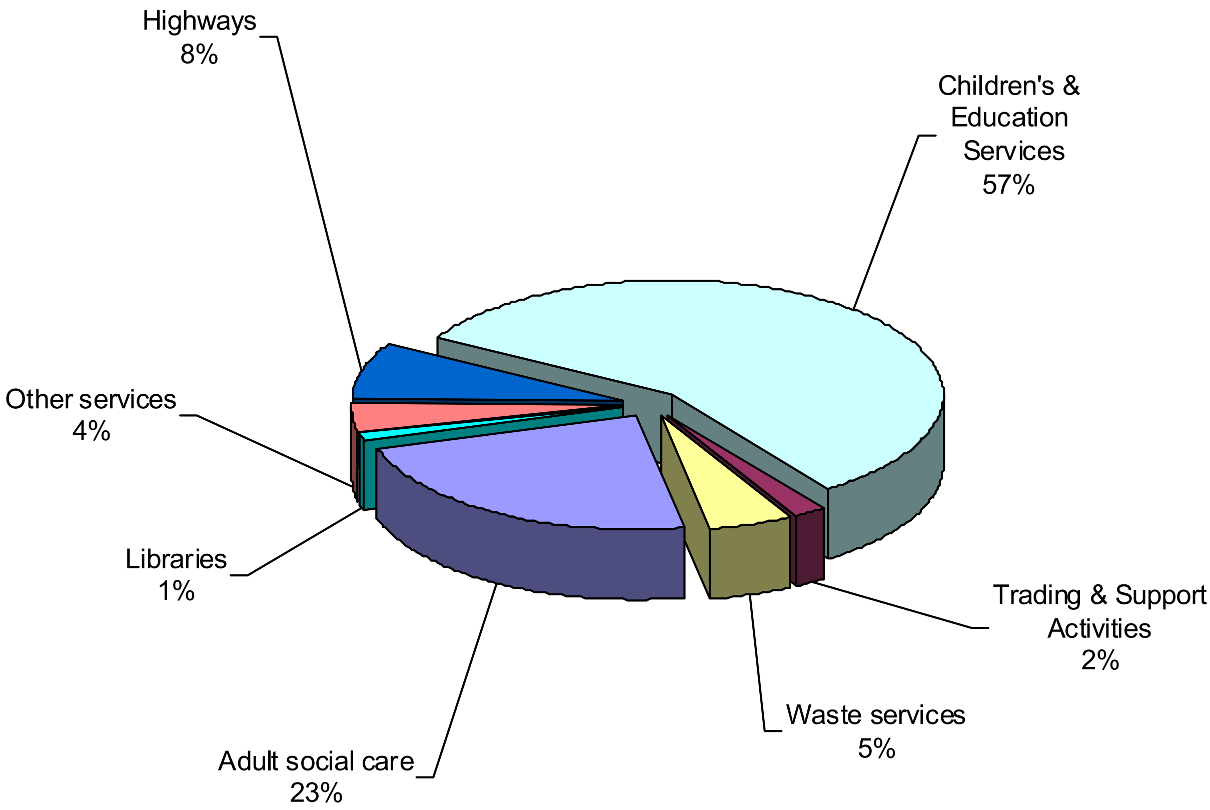
The diagrams below show where our money came from, which services we spent it on and how we spent it. It is important to note that the contribution from the local community through the Council Tax represents just 23% of our funding needs.

Analysis of total revenue spending (£886.8 million)

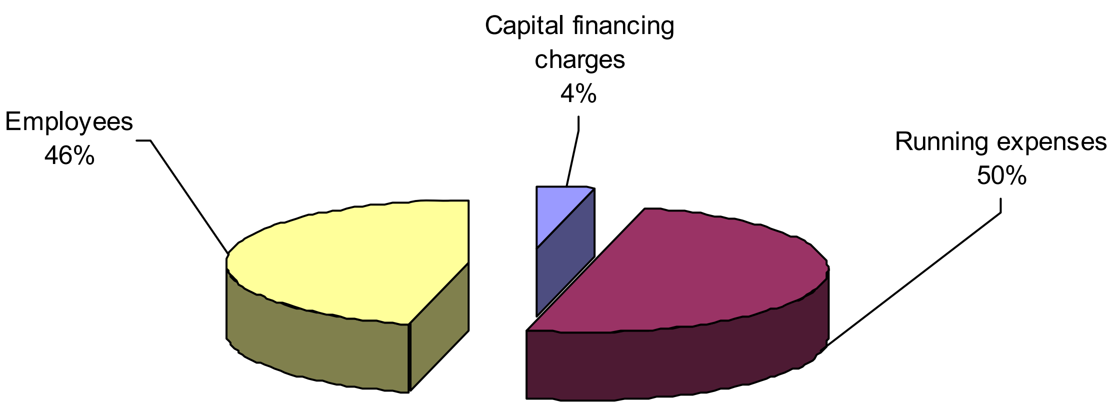
Where the money came from



Which services we spent it on



How we spent this



Capital spending in 2010/11

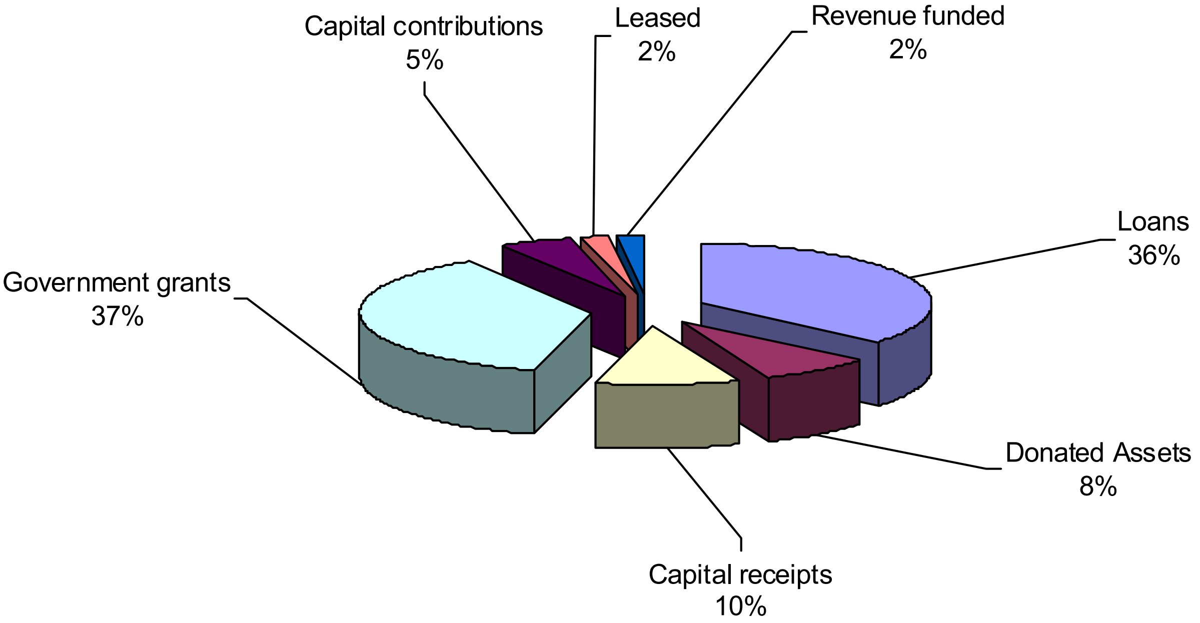
Alongside our day-to-day costs, we spend money on assets such as buildings, roads, major maintenance, vehicles and Information and Communications Technology (ICT). This is capital spending. During 2010/11, our actual spending was £68.616 million (£72.3m in 2009/10) which included spending on assets we do not own. Of this we spent £21.7 million on schools and £5.4 million on other services for children and young people, including nurseries, children's centres and youth service. We spent £27.9 million on maintaining and improving our highways and transport services. The following table shows how we spent this money.

Scheme		2010/11 £millions	£millions
Children and young people	Basic needs classrooms – various sites	0.8	
	Removing and replacing temporary classrooms and associated alterations	2.4	
	Facilities to improve school meals	0.8	
	Schools Access Initiative	1.0	
	Children's centres – various sites	1.1	
	Oaklands Primary School, Yeovil – new school to replace Westfield Community Infants and Parcroft Community Primary Schools	1.0	
	Replacement school for Oak and Bradford Primary School	1.4	
	Somerset Bridge School	5.8	
	Investment in information technology to support education	2.0	
	Alterations to schools and other properties to improve childcare and access to activities outside the school day	2.9	
	Children's social care accommodation & ICT investment	1.3	
	Investment in new boarding block at Bruton Sexey's school	2.1	
	Investment to improve Archbishop Cranmer School	0.6	
	Investment in specialist units to support schools	0.3	
	Investment to improve Churchfields	0.7	
	Investment in facilities to support specific curriculum subjects	1.5	
	Investment in Youth Services Projects	0.2	
	General improvement to schools and other assets associated with delivering education	1.2	27.1
Environment	Road safety, traffic signals and street lighting	0.7	
	Vehicles for passenger transport and winter gritting	1.1	
	New road schemes to relieve congestion in Taunton	4.6	
	Investment in projects to reduce the County Council's Carbon impact	0.4	
	Investment in waste infrastructure including Sort It Plus, Household Waste Recycling and vehicles	3.3	
	Structural improvements to roads	17.9	
	Structural improvements to bridges	1.6	
	Transport management including roads, cycleways, footpaths and rights of way	2.0	31.6
Community services	Replacement of the adult social care client database	0.7	
	Improvements to facilities for accommodation and support of clients with learning disabilities	0.5	
	Construction and equipping of new archive building and museum storage	1.1	
	Refurbishment of the County Museum in Taunton	3.5	5.8
Resources	Investment in computer hardware and software		0.7
Other	Other projects		3.4
	Total capital spending		68.6

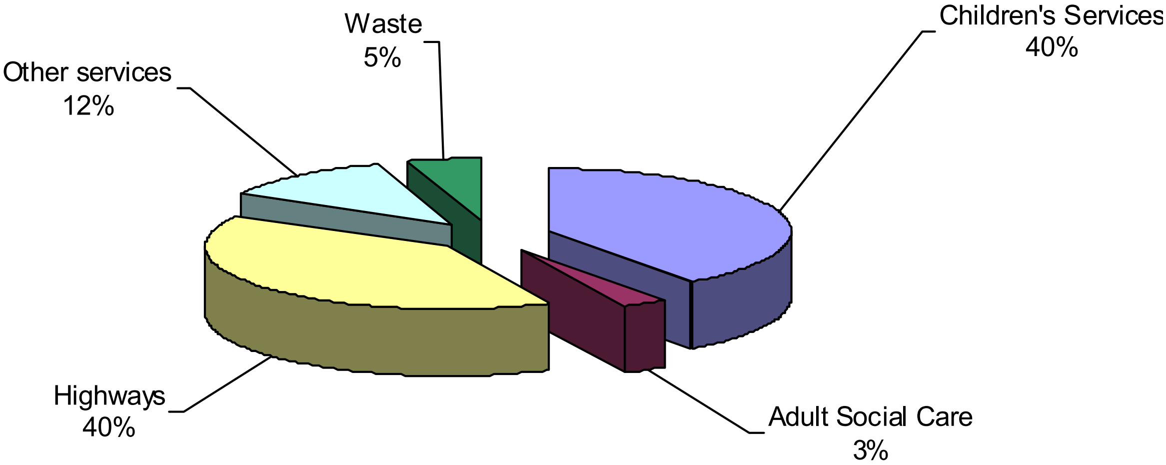
Analysis of total capital spending

During 2010/11, our total capital spending of £68.616 million included £5.403 million on assets we do not own.

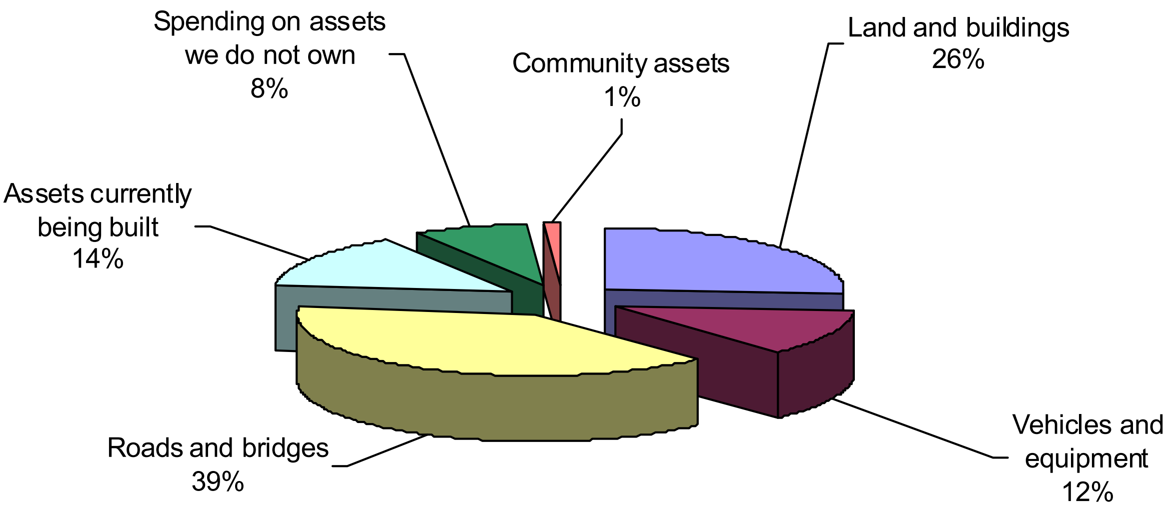
Where the money came from



Which services we spent it on



How we spent this



Borrowing facilities

Under the Prudential Code, we have set an authorised limit against which our external borrowing is monitored and managed. For 2010/11, the total approval was £457 million (next year's approval is £420 million). On 31 March 2011, the amount we owed was £362.5 million (£361.4 million in 2010).

On 31 March 2010 £millions	Borrowing	On 31 March 2011 £millions
173.2	Public Works Loan Board (PWLB)	173.2
180.5	Other long-term loans	180.5
7.7	Other organisations investing in the Comfund (note 31)	8.8
361.4		362.5

In line with accounting practice, we must show the 'fair value' of our loans. The fair value of the PWLB loan is £186.772 million at 31 March 2011 (£181.318 million at 31 March 2010). The fair value of the other long-term loans is £205.147 million at 31 March 2011 (£204.848 million at 31 March 2010).

Usable Reserves

On 31 March we had the following reserves available:

On 31 March 2010 Restated £millions	Usable Reserves	On 31 March 2011 £millions
9.3	Capital reserves	7.7
3.8	Capital Grants/Contributions Unapplied Reserve	8.5
6.7	Revenue reserves set aside for capital	6.8
11.0	Other revenue reserves which we have set aside	13.5
30.6	Schools' carry-forward fund	30.1
1.3	Services' carry-forward fund	3.8
14.2	General reserves (see the note below)	15.1
76.9		85.5

General reserves represent just 4.3% of the 2011/12 budget. This shows that we need to continue to operate within very strict financial limits.

Looking ahead to 2011/12 and the future

Heritage Assets

From 2011/12 we will have to separately identify heritage assets in our accounts. These are assets with historical qualities intended to be preserved for future generations. This will be a difficult exercise as it is not always practicable to obtain accurate valuations for historical items. This requirement is discussed further in Note 2, Accounting Standards That Have Been Issued but Have Not Yet Been Adopted.

New Ways of Working

In order to cope with the increases in demand for our services at a time when the level of funding available is reducing, we must examine how we provide these services and how we make best use of our assets such as property. To help achieve this, the Authority has started a programme to examine whether we need the number of properties we currently own or use, with a view to reducing them and using the proceeds of any sales to support other service infrastructure. Introducing greater flexibility for staff to work at any Council property will reduce the need to own and maintain the number of properties we currently have. This can be aided by sharing our assets better with our partners, for example officers from both Somerset County Council and the District Councils sharing office accommodation. This will also help the residents of Somerset access our services more easily.

Broadband

Delivering better broadband access, and superfast broadband wherever possible, is vital to delivering Somerset County Council's strategic priorities. It is also vital to our economic recovery helping us to safeguard jobs, as well as transforming the opportunities for Somerset businesses and create new jobs. Through a successful joint bid with neighbouring authorities for Government funding, we have been awarded £31 million to deliver a significant improvement to our broadband infrastructure, recognising that our economy doesn't stop at our borders, and

that by working together we can do this more efficiently. In addition, Somerset County Council has committed up to £10 million to support this work.

Investment in Icelandic Banks

Along with many other Councils, we have money invested in three Icelandic Banks that have gone into administration. We have made every effort to recover this money and this may soon happen. The latest guidance from CIPFA suggests that we will receive around 80% of our £10 million investment in Kaupthing Singer and Friedlander Ltd, around 100% of the £5 million invested in Glitnir Bank, and 95% of the £10 million investment in Landsbanki. The interest due is also expected to be returned.

We have already received £5.983 million as at 27 May 2011. CIPFA suggests that we should expect to receive over £22.5 million of the original £25 million, plus interest. Should this prove to be the case, we will need to adjust our accounts to reflect this improved position (previously we capitalised possible losses of £9.939 million over 10 years). We have already reduced this impairment by £2.253 million this year.

Financial outlook

The financial outlook for the authority continues to look difficult with further significant cuts to our funding due in 2011/12 and beyond at a time of high demand for our services. This is made worse through high inflation. It will therefore be necessary to review, revise and even remove some of the services we currently provide. We will however try our hardest to consider the needs of all of our residents whilst ensuring that we invest adequately in our future.

Inspection and audit

Before completing the audit, we will make these accounts available for public inspection (from 11 July to 5 August) so that people who pay Council Tax and rates, and other members of the public, can ask the auditor any questions. This is a legal requirement, but my department will answer questions from anyone with an interest at any time.

The accounts are due to be audited from 1 July, and, once the audit has been completed, the Audit Commission's audit report will be published on page 12.

Kevin Nacey CPFA
Service Director - Finance and Property
30 June 2011

Statement of Responsibilities

This section explains our responsibilities for our financial affairs and how we make sure we carry out these responsibilities properly.

Somerset County Council's Responsibilities

The Authority is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Chief Financial Officer;
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- Approve the Statement of Accounts.

The Chief Financial Officer's Responsibilities

The Chief Financial Officer is responsible for the preparation of the Authority's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC *Code of Practice on Local Authority Accounting in the United Kingdom* (the Code).

In preparing this Statement of Accounts, the chief financial officer has:

- Selected suitable accounting policies and then applied them consistently;
- Made judgements and estimates that were reasonable and prudent;
- Complied with the Local Authority Code.

The Chief Financial Officer has also:

- Kept proper accounting records which were up to date;
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

The Chief Financial Officer's Declaration

This Statement of Accounts gives a true and fair view of the financial position of Somerset County Council as at 31 March 2011 and its income and spending for the year ending on that date.

KBNacey

Kevin Nacey CPFA
Service Director – Finance & Property
Somerset County Council
30 June 2011

Independent Auditor’s Report

to the Members of
Somerset County Council

The audit report will appear here.

Annual Governance Statement (2010/11)

This section gives the results of our yearly assessment of how well we are managing and controlling risks to achieve our aims and meet the responsibilities we have by law.

Responsibility

We are responsible for making sure that we:

- carry out our business in line with the law and proper standards;
- protect public money and account for it properly; and
- use public money economically, efficiently and effectively.

We also have a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which functions are exercised, having regard to a combination of economy, efficiency and effectiveness. In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and the management of risk.

Somerset County Council has agreed a code of corporate governance, which is consistent with the principles of the Chartered Institute of Public Finance and Accounting (CIPFA) and the Society of Local Authority Chief Executives and Senior Managers (SOLACE) Framework *Delivering Good Governance in Local Government*. A copy of the code can be obtained from Jacky Barnes, Group Manager, Governance, e-mail address: jabarnes@somerset.gov.uk.

This statement explains how Somerset County Council has complied with the code and also meets the requirements of regulation 4(2) of the Accounts and Audit (Amendment) (England) Regulations 2006 in relation to the publication of a statement of internal control.

The purpose of the governance framework

The governance framework comprises the systems and processes, and culture and values, by which the authority is directed and controlled and through which it accounts to, engages with and leads the community. It enables the authority to set its strategic objectives, monitor their achievement and consider whether they have led to the delivery of appropriate, cost-effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Somerset County Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised. It ensures they are managed efficiently, effectively and economically.

The governance framework has been in place at Somerset County Council for the whole of the year ended 31 March 2011 and up to the date of approval of the statement of accounts.

The governance framework

On 14 May 2008 the County Council adopted a formal code of corporate governance in line with guidance provided by CIPFA and SOLACE. This describes how Somerset County Council discharges its responsibilities for putting in place proper arrangements for the governance of its affairs, incorporating the six core principles identified by CIPFA/SOLACE. The framework we have in place to ensure we adhere to the code is described in more detail below.

Core Principle 1: Somerset County Council aims to focus on its purpose and on outcomes for the community, creating and implementing a vision for the local area with partners.

Somerset County Council's Strategy is set out in the Somerset County Plan 2011-2014, SCC Business Plan 2011/12 and the Medium Term Financial Plan (MTFP), a set of strategic plans to shape and direct how we manage ourselves overall. The Somerset County Plan sets out our ambitions for the next three years, and the Business Plan, the main activities and projects we plan to undertake during the next year to deliver them. The Business Plan will also include measures and targets to enable us to monitor progress. The MTFP will show how the Council continues to take difficult financial decisions to reflect government spending reforms and the economic downturn whilst still maintaining effective services for the public.

The Annual Report reviews our performance over the last year, highlighting some practical examples of our achievements. Scrutiny Committee reviews our performance and delivery of the plan's priorities and activities, receiving an outturn report on an annual basis.

Funding to carry out all these activities is agreed through the Medium Term Financial Plan (MTFP) which is a three year rolling programme, updated annually. This covers both revenue and capital investment. We continue to strengthen the MTFP process by looking at the links between resources and the outcomes we achieved, and by providing appropriate information on the processes of dividing resources, decision-making and monitoring. At the moment, we report to Cabinet on our overall performance four times a year. Individual services are responsible for regularly monitoring their progress towards achieving the activities they have set out in their plans. They must regularly report to their management teams and provide a summary report for Cabinet leads as part of the current reporting timetable. These reports show:

- how well we are achieving the ambitions in the County Plan and Business Plan activities;
- our performance against top targets; and
- the results of monitoring the Risk Management Plan.

Core Principle 2: The County Council aims to engage with local people and other stakeholders to ensure robust public accountability.

Somerset County Council now has a Corporate Consultation and Customer Planning Team with one full time post specifically devoted to consultation. The team interprets legislation for the whole authority, monitors consultations carried out by all services, and seeks to standardise consultation methods as much as possible to prevent duplication and ensure the public have every opportunity to influence the decision making process.

The Council has strong links with the voluntary sector community to make sure that the work we are doing is having the desired effect within all of Somerset's communities.

The Communications Team help Somerset County Council communicate with all sections of the community in Somerset, primarily through the media but also using other tools such as marketing and the Council's website. The Communications Team work with staff across the Council to develop proactive plans to promote service improvements and changes

The County Council aims to have good governance arrangements in respect of partnerships and other group working as identified by the internal auditors report on the governance of partnerships. These are reflected in the authority's overall governance arrangements, through:

- a Partnership Standard which sets out the Council's expectations for those partnerships within which it is engaged;
- a checklist for effective partnership working; and
- making available guidance that supports members and officers working within partnership arrangements.

Core Principle 3: The County Council aims to ensure members and officers work together to achieve a common purpose with clearly defined functions and roles.

The council's constitution sets out transparently and comprehensively the rules controlling our business, including the Council's "executive arrangements", committee structure, codes of conduct, contract standing orders, financial regulations and scheme of delegation. We continue to refine and monitor our decision making processes to ensure that they are robust, consistent and fit for purpose.

We review our financial management arrangements on an annual basis to ensure that they conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010). A review carried out in April/May 2011 confirmed that during the financial year 2010/11 the County Council complied with all these requirements.

Core Principle 4: The County Council aims to promote its values and demonstrate the values of good governance through upholding high standards of conduct and behaviour.

The Standards Committee promotes high standards of behaviour by members, reviewing policies and laws relating to members' behaviour. During 2011/12 the committee will be working with the leadership of the County Council to target the efforts of the committee towards adding greatest value.

The Governance Board deals with governance issues and promotes high standards of behaviour by officers. It is responsible for making sure that we have, and follow, an effective governance framework which is in line with our vision. In particular the group is responsible for ensuring that key elements of the Council's governance framework such as risk management and fraud prevention are regularly reviewed and updated.

Managers are responsible for making sure members of staff keep to policies, procedures, laws and regulations and for making sure that we include risk management in our work.

Core Principle 5: The County Council aims to take informed and transparent decisions which are subject to effective scrutiny and risk management arrangements.

To achieve this, the County Council:

- ensures that its constitutional arrangements provide for effective Cabinet and Council decision-making defining the roles of members and officers in these processes;
- ensures that the decision-makers are provided with complete information necessary for them to make balanced and informed decisions;
- ensures that the Council's Scrutiny Committee performs all of the statutory roles required of it; and
- takes as many of its decisions in public as possible.

The Cabinet, as a result of a recommendation by the Strategic Management Board, has the overall responsibility to approve our risk-management strategy and policy statement, and to

make sure all our staff are aware of it. We also make sure that all our staff are fully aware of risk issues through induction and management training and by including a risk register in every service and project plan. We have a Strategic Risk Management Group which meets regularly to co-ordinate an ongoing programme for risk management including the significant corporate risks of health and safety and business continuity.

One of the key areas of risk for the County Council is its partnership with Southwest One which has been in place for the last three years. Because of its size and complexities, the risks relating to this relationship are continuously monitored.

To manage the large programmes of change projects which are taking place the County Council has put in place a Corporate Programme Review Board which meets monthly to consider performance and risk.

A significant operational risk was the implementation in 2009/10 of SAP which has provided us with a fully integrated accounting, payroll and HR system. This risk was finally brought under an adequate level of control during 2010/11.

The Audit Committee met regularly throughout the year to carry out its role. Its functions are modelled on those recommended by CIPFA. It reviewed a number of areas of high impact risk including SAP implementation, disaster recovery and health and safety.

Our Internal Auditors, South West Audit Partnership and external auditors, the Audit Commission, work together to review and provide opinions each year on the control framework and governance and how valid the annual accounts are. The external auditors issue an annual report giving an opinion on whether the accounts give a true and fair view of the financial position of the Council as at the 31 March 2011. Other inspection agencies also look at specific areas of our business.

Core Principle 6: The County Council aims to develop the capacity and capability of members and officers to be effective in their roles.

The County Council has a personal development review process in place for managers to discuss with each member of staff their capacity and capability to carry out their current and future roles. This process was reviewed and streamlined during 2010/11. Managers are responsible with staff for arranging appropriate training and development opportunities.

Members also have training provided for them on an as needs basis. New members are subject to a targeted induction process, and an on-going package of support including the provision of IT hardware and software.

Review of effectiveness

Somerset County Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. That framework includes the Somerset Pension Fund. The review of effectiveness is informed by the work of the executive managers within the authority who have responsibility for the development and maintenance of the governance environment, the Head of Internal Audit's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

The Full Council approves a Code of Governance for the County Council and a process for assessing the effectiveness of the governance framework on an annual basis. The Governance Board, led by the Section 151 Officer, carried out the review for the 2010/11 statement. The review took into account:

- Internal Audit's annual opinion report for 2010/11;
- the effectiveness of internal audit;
- external auditors' comments;
- comments from other review agencies and inspectorates;
- assurance reviews carried out by each directorate;
- reports to the audit committee relating to risk management and key risks; and
- the review of effectiveness of the role of the Section 151 officer.

The results of the review were provided to management and key members to consider and details to be included in the Annual Accounts were considered by the Audit Committee on 23 June 2011.

We have been advised on the implications of the result of the review of the effectiveness of the governance framework by management and lead members, and a plan to address weaknesses and ensure continuous improvement of the system is in place.

Significant governance issues

During the year, the Chief Internal Auditor brought a number of control issues to the attention of the Audit Committee. The opinion of the Internal Auditors was that, whilst there are identified controls in place, there were some areas of the control framework (key financial systems, governance) where controls needed to operate more effectively to ensure the achievement of objectives. Other key areas where action is being taken include:

- Unofficial funds and income in schools; and
- Blue badges

The Internal Auditors were pleased to find that managers are committed to supporting the audit programme, are requesting audit work where there are areas of potential weakness and are addressing control weaknesses identified.

We also found from the annual review of governance that we need to carry out a number of actions during the next financial year to strengthen the control framework. These include:

- Ensuring we have up to date disaster recovery and business continuity plans in place that have been tested;
- Ensuring our key partners have strong governance and risk management arrangements in place; and
- Ensuring our partnerships such as Southwest One realise the benefits they are intended to achieve.

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation on a regular basis through out the year.

There are a number of circumstances that are likely to impact on the governance and constitution of the County Council in 2011/12 including reforming the County Council as a leaner commissioning organisation. This will mean a wholesale review of governance to ensure we are satisfied that both we and the organisations we work with have continue to have adequate governance arrangements and that our staff and members have the capacity and

skills they need to work in this new way. The Audit Committee will be keeping a watching brief to ensure this happens.

We are aware that we have embarked on some large projects which will make an impact in 2011/12. These include; enabling the delivery of high speed broadband across Somerset, enabling the development of a new power station at Hinckley Point, developing the Somerset Children and Young People Compact, building schools for the future and strengthening partnerships with NHS Somerset. Senior Management Board and Directors of Service will be instrumental in identifying and managing the risks which arise from these developments and will ensure that our governance arrangements continue to be fit for purpose.

Sheila Wheeler
Chief Executive
30 June 2011

Ken Maddock
Leader of the Council
30 June 2011

Statement of Accounting Policies

This section summarises the accounting rules and conventions we have used in preparing these accounts.

1 General

The content, layout and general rules we used to prepare these accounts are those recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA) and keep to accounting standards issued by the International Accounting Standards Board and interpretations of the International Financial Reporting Interpretations Committee, except where these are inconsistent with specific statutory requirements.

We have produced these accounts on the basis of CIPFA’s Code of Practice on Local Authority Accounting in the United Kingdom 2010/11: Based on International Reporting Standards.

The accounting convention adopted is historical cost, modified by the revaluation of certain categories of tangible fixed assets.

2 The difference between Capital and Revenue

In broad terms, revenue spending is made up of payments to employees, day-to-day running expenses and repaying debts, whereas we class spending to buy assets, for example, buildings, equipment and vehicles, as capital spending.

3 Accruals of Income and Expenditure

Activity is accounted for in the year it takes place, not simply when cash payments are made or received. In particular:

- Fees, charges and rents due from customers are accounted for as income at the date the Council provides the goods or services;

- Supplies are recorded as expenditure when they are used. Where there is a gap between the date supplies are received and their use, they are carried as inventory on the Balance Sheet, at the lower of cost and net realisable value;

- Works are charged as expenditure when they are completed, before which they are carried as work in progress on the Balance Sheet;

- Interest payable on borrowings or receivable on investments is accounted for on the basis of the effective interest rate for the relevant financial instrument, rather than the cash flows fixed or determined by the contract;

- Where income and expenditure have been recognised but cash has not been received or paid, a debtor or creditor entry for the relevant amount is recorded in the Balance Sheet. Where it is doubtful that debts will be settled, the balance of debtors is written down and an impairment charge made for the income that might not be collected.

4 Cash and Cash Equivalents

Cash and cash equivalents include cash balances, bank overdrafts and short-term investments with an initial maturity period of less than 1 month.

5 Exceptional Items

When items of income and expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the Accounts, depending on how significant the items are to the understanding of the Authority's performance.

6 Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Authority's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

7 Charges to Revenue for Using Assets

Services, support services and trading accounts are debited with the following amounts to record the cost of holding fixed assets during the year:

- depreciation attributable to the assets used by the relevant service;
- revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off;
- amortisation of intangible fixed assets attributable to the service;
- lease rentals directly attributable to the service.

8 Employee Benefits

Benefits Payable during Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits for current employees and are recognised as an expense for services in the year in which employees render service to the Authority. An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Authority to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy. They are charged on an accruals basis to the relevant service line in the Comprehensive Income and Expenditure Statement when the Authority is demonstrably committed to the termination of the employment of an officer or group of officers, or makes an offer to encourage voluntary redundancy.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Authority to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

Post Employment Benefits

Employees of the Authority are eligible to be a member of either:

1) The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE);

2) The Local Government Pension Scheme, administered by Somerset County Council.

Both schemes provide defined benefits to members (retirement lump sums and pensions), earned through employment in the Authority.

However, the arrangements for the Teachers' scheme mean that liabilities for these benefits cannot ordinarily be identified specifically to the Authority. The scheme is therefore accounted for as if it were a defined contribution scheme and no liability for future payments of benefits is recognised in the Balance Sheet. The Education and Children's Services line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to Teachers' Pensions in the year.

9 Discretionary Benefits

The Authority also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including Teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

10 Financial Instruments

Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective

rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

This means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Financial Assets

Financial Assets are classified into two types:

1) Loans and debtors – assets that have fixed or determinable payments but are not quoted in an active market;

2) Available-for-sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments.

Loans and Debtors

Loans and debtors are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value, and are carried at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For the loans that the Authority has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the relevant service (for debtors specific to that service) or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

Any gains and losses that arise on the de-recognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

11 Government Grants and Contributions (Including Donated Assets)

Our accounting policy for the treatment of government grants and contributions and donated assets received for capital purposes has changed with the transition to IFRS. In previous years such income, that was identifiable to fixed assets with a finite useful life, was credited to either the Capital Grants Deferred Account or the Revaluation Reserve (for donated assets), with the balance then written down to revenue to offset depreciation charges made for the relevant assets in the relevant service revenue account. We have therefore restated our accounts, and details of these restatements can be found in Note 1: Transition to IFRS on page 41.

Whether paid on account, by instalments or in arrears, Government grants and third party contributions and donations are recognised as due to the Authority when there is reasonable assurance that:

- The Authority will comply with the conditions attached to the payments, and
- The grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied or there is reasonable assurance that there will be compliance. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not yet been met are carried in the Balance Sheet as receipts in advance.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied Reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied Reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

12 Area Based Grant

Area Based Grant (ABG) is a general grant allocated by Government directly to Local Authorities as additional revenue funding. ABG is non-ringfenced and is credited to Taxation and Non-Specific Grant Income in the Comprehensive Income and Expenditure Statement.

13 Intangible Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Authority as a result of past events (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the Intangible Asset to the Authority.

Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the Authority’s goods or services.

Intangible Assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Authority can be determined by reference to an active market. In practice, no intangible asset held by the Authority meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an Intangible Asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account.

14 Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

The Authority as Lessee

Finance Leases

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Authority are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

- A charge for the acquisition of the interest in the Property, Plant or Equipment – applied to write down the lease liability, and
- A finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, Plant and Equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the authority at the end of the lease period).

The Authority is not required to raise Council Tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

The Authority as Lessor

Finance Leases

Where the Authority grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the Authority's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease (long-term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

- A charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received), and
- Finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts in the Movement in Reserves Statement. When the future rentals are received, the capital receipt element for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

The written-off value of disposals is not a charge against Council Tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

Operating Leases

Where the Authority grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease).

Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

15 Property, Plant and Equipment (PPE)

Property, plant and equipment are assets with a physical substance that are held for use in the provision of services, for rental to others, or for administrative purposes, and that will be used during more than one financial year. However, we charge certain lower value items that have an expected life of more than one year (for example, library books) to revenue in the year we buy them.

The types of assets we include under Property, Plant and Equipment reflect the classifications identified in the Code:

- Land;
- Buildings;
- Vehicles and Equipment;
- Infrastructure (mainly road improvements);
- Community assets (such as parks and historic buildings);
- Assets under construction (except Investment Properties); and
- Surplus property, plant and equipment (not classified as held for sale).

Recognition

We capitalise expenditure on Property, Plant and Equipment including the costs of acquisition and construction, and costs incurred subsequently to enhance, replace part of, or service the asset provided that it yields benefits or service potential for more than one year and the cost or fair value can be reliably measured.

Subsequent costs arising from day-to-day servicing of the assets, such as repairs and maintenance, are not capitalised. Where a component of an asset is replaced or restored (i.e. expenditure on enhancing the asset), we de-recognise the carrying amount of the old component.

Measurement

Property, Plant and Equipment are initially measured at cost on an accruals basis, comprising all expenditure that is directly attributable to bringing the asset into working condition for its intended use. Donated assets are measured at fair value at the date of acquisition. Assets are then carried in the balance sheet using the following measurement basis:

Group of assets	Measure	Basis
Land	Fair value	Existing Use Value (EUV)
Buildings – Non Schools	Fair value	Existing Use Value (EUV)
Buildings – Schools	Fair value	Depreciated Replacement Cost (DRC)
Vehicles and equipment	Fair value	Depreciated Historic Cost
Infrastructure	Historic cost	Depreciated Historic Cost
Community assets	Historic cost	Depreciated Historic Cost
Assets under construction	Historic cost	Cost
Surplus assets	Fair value	Existing Use Value (EUV)

If there is no market-based evidence of fair value because of the specialist nature of the asset, we estimate fair value using the cost of replacing the asset with its modern equivalent (i.e. at depreciated replacement cost).

Assets that are included in the Balance Sheet at fair value are revalued on a rolling basis over 5 years. When an asset is revalued, any accumulated depreciation and impairment at the date of revaluation is eliminated against the gross carrying amount and the net amount restated to the revalued amount of the asset. Where the value of the asset increases upon revaluation, the increase is recognised in the revaluation reserve, unless the increase is reversing any previous revaluation loss or impairment previously charged to the Surplus or Deficit on Provision of Services.

In such cases, the reversal of the previous decrease credits the Surplus or Deficit on Provision of Services to the extent that the reversal does not exceed the carrying amount that would have been determined had no previous decrease been recognised. Any increase in value above the reversal is treated as a revaluation gain and credited to the Revaluation Reserve.

Where the value of the asset decreases upon revaluation, the decrease is charged to the Revaluation Reserve up to the credit balance existing in respect of the asset and thereafter to the Surplus or Deficit on Provision of Services. Under regulations and statutory guidance, revaluation gains and losses charged to the Surplus or Deficit on the Provision of Services are not proper charges to the General Fund. We therefore transfer such amounts to the Capital Adjustment Account in the Movement in Reserves Statement.

Transferring property between services is reflected in the accounts at the current value on the date the transfer takes place.

Depreciation

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life. With the exception of land that has an unlimited useful life we depreciate all property, plant and equipment assets that are available for use, on a straight-line basis over the period that we expect to use them, with the charge being allocated to the Surplus or Deficit on the Provision of Services. For assets with components that have different useful lives, each component is depreciated separately (see Componentisation below). Typically, we use the following useful lives for our assets for depreciation purposes

Type	**Useful life**
Land	Indefinite, therefore not depreciated
Operational Buildings	20 to 50 years, depending on type of building and other operational factors
Infrastructure e.g. road improvements	25 years
Vehicles	5 to 15 years
Plant	10 years
Mobile classrooms	10 years
IT and other equipment	5 years
Software licences	25 years
Community assets	10 years

Under regulations and statutory guidance, depreciation charged to the Surplus or Deficit on the Provision of Services is not a proper charge to the General Fund. We therefore transfer

such amounts to the Capital Adjustment Account in the Movement in Reserves Statement. Additionally, on revalued assets, we transfer from the Revaluation Reserve to the Capital Adjustment Account the difference in depreciation based on the revalued carrying amount and the depreciation based on the asset's historical cost.

Componentisation

Where a high value asset, for example a building, includes a number of components with significantly different asset lives, we are required to identify and depreciate the components separately from the main asset. This additional analysis is only required for assets that we deem 'significant', so we are required to set a materiality threshold to assist with the identification of such assets. For 2010/11, we have set a materiality threshold of £1.5 million for individual assets and a significance level for separate components of 20% of the whole asset's original cost. Consideration of componentisation is only required for assets that meet these two criteria. This is the minimum requirement (as defined by the Code) but services may choose to apply componentisation for assets below this threshold if it assists with asset planning.

Under the new International Financial Reporting Standards (IFRS), there is also a requirement to separately identify any elements of previously recognised revaluation gains (reported in the Revaluation Reserve) that relate to components identified during the componentisation process. In previous years, the Revaluation Reserve had been amortised in-line with the revalued land and buildings depreciation charge to off-set the additional charge taken to the General Fund as a result of the assets increased carrying value. Where a revaluation gain was identified for an item of property with land and buildings elements, the gain was amortised in line with the increased depreciation charge. As land is non-depreciating (due to land having an infinite life) the revaluation gain was linked to the assets building element (referred to under IFRS as the asset's 'main structure').

To ensure a consistent approach during the restatement process, we have therefore linked all unrealised revaluation gains (prior to 1 April 2010) to the main structure (i.e. the building) of any assets previously identified as having land and building elements. For revaluation gains recognised post 1 April 2010 we have continued to link the gain to the assets main structure, where applicable.

Impairment

We recognise an impairment loss where the carrying amount of an asset exceeds its recoverable amount. At the end of each financial year, we assess whether there is any indication that an asset may be impaired, for example there is evidence of physical damage or obsolescence of an asset. We also assess whether there is any indication that any impairment losses recognised in earlier periods for an asset may no longer exist or may have decreased, in the limited circumstances of a reversal of the event that caused the original impairment.

We account for impairment losses by initially allocating the loss against any credit balance held in the Revaluation Reserve relating to the impaired asset, and thereafter any residual impairment loss is allocated directly to the Surplus or Deficit on the Provision of Services. We account for the reversal of a previous impairment loss in the Surplus or Deficit on the Provision of Services to the extent that the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised in prior years. Any reversal amount above this is accounted for as a revaluation gain and credited to the Revaluation Reserve.

Under regulations and statutory guidance impairment losses and impairment reversals charged to the Surplus or Deficit on the Provision of Services are not proper charges to the General Fund. We therefore transfer such amounts to the Capital Adjustment Account in the Movement in Reserves Statement.

Transition to IFRS

The transition to IFRS has led to a number of accounting policy changes. The main differences apply to how we account for Property, Plant and Equipment transactions from 1 April 2010 onwards, although we have restated 2009/10 comparatives in some cases.

The Code places greater emphasis on separate accounting for significant asset components for depreciation purposes where the useful life is significantly different. This requirement for component accounting is applicable from 1 April 2010 and therefore has no impact on transition.

The Code introduces the concept of fair value, however the valuation bases we use are the same as under the SORP, and therefore have no impact on transition. The Code also introduces a clear distinction between an impairment loss and a revaluation loss, however our accounts for 2009/10 had already incorporated the distinction so there has been no impact on transition.

16 Accounting for Schools Non-Current Assets

There are five main types of state school that all receive funding from the local authority or direct from Central Government. When considering whether these schools are an ‘asset’ to the authority and therefore require reporting within our accounts as a non-current asset (PPE), the Code requires us to consider the substance and economic reality of our relationship with the school not merely its legal form.

Having considered the ‘substance over form’ principal, we have accounted for the schools non-current assets for the five main types of schools as follows:

Community schools

The local authority owns the freehold for all of our Community schools, and has a significant role in the running of the school. Accordingly, the Community schools have been recognised as Property, Plant and Equipment (PPE) in our Balance Sheet.

Foundation schools

These schools are funded by the local authority, but the schools are owned and managed by the governing body or charitable foundation. Accordingly, the Foundation schools have not been recognised within our Balance Sheet.

Voluntary aided (VA) schools

These schools are owned by a charity (often a religious organisation such as a church) who also manages the school and employs the staff. The local authority provides support services and partially funds these schools, but as the ownership and control of these schools lies with the charity the VA schools have not been recognised within our Balance Sheet.

Voluntary controlled (VC) schools

As with VA schools these schools are generally owned by a charity (although the local authority does retain the freehold for some of the school playing fields), but unlike VA schools the authority runs the school and employs the staff. As the substance of the arrangement indicates that control of these schools lies with the Authority, the VC schools have been recognised as Property, Plant and Equipment (PPE) in our Balance Sheet.

Academies

Academies are independently managed schools which operate outside the control of the local authority. Funding is provided directly by Central Government. The authority owns the freehold for these schools, and issues a long lease to the Academy Trust for the land and buildings. Under IAS17, we have reviewed the leasehold arrangement with the Academy Trusts and have identified it to be a ‘finance’ lease type arrangement. Accordingly, we have derecognised from our Balance sheet any schools that have converted to academy status.

17 Disposals and Non-current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any losses previously recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

The written-off value of disposals is not a charge against Council Tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

18 Provisions

Provisions are made where an event has taken place that gives the Authority a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the Authority may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Authority becomes aware of the obligation, and are measured at the best estimate at the Balance Sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is highly likely that reimbursement will be received if the authority settles the obligation.

Landfill Allowance Schemes

Landfill allowances, whether allocated by DEFRA or purchased from another Waste Disposal Authority (WDA) are recognised as current assets and are initially measured at fair value. Landfill allowances allocated by DEFRA are accounted for as a Government grant.

After initial recognition, allowances are measured at the lower of cost and net realisable value.

As landfill is used, a liability and an expense are recognised. The liability is discharged either by surrendering allowances or by payment of a cash penalty to DEFRA (or by a combination). The liability is measured at the best estimate of the expenditure required to meet the obligation, normally the market price of the number of allowances required to meet the liability at the reporting date. However, where some of the obligation will be met by paying a cash penalty to DEFRA, that part of its liability is measured at the cost of the penalty.

19 Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Authority a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Authority. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but are disclosed in Note 47.

20 Reserves

The Authority sets aside specific amounts in reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against Council Tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits and do not represent usable resources for the Authority – these reserves are explained in the relevant policies.

21 Revenue Expenditure Funded from Capital Under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Authority has determined to meet the cost of this expenditure from existing Capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of Council Tax.

22 Private Finance Initiative (PFI)

PFI contracts are agreements to receive services, where the responsibility for making available the fixed assets needed to provide the services passes to the PFI contractor. As the Council is deemed to control the services that are provided under its PFI scheme, Building Schools for the Future (BSF), and as ownership of the fixed assets will pass to the Council at the end of the contracts for no additional charge, the Council will carry the fixed assets used under the contract on the Balance Sheet.

The original recognition of the fixed assets will be balanced by the recognition of a liability for amounts due to the scheme operator to pay for the assets.

Fixed assets recognised on the Balance Sheet will be revalued and depreciated in the same was as Property, Plant and Equipment owned by the Council.

Our first payment for BSF will be made in 2011/12 and a schedule is shown in Note 30.

23 Value Added Tax

Income and expenditure excludes any amounts related to VAT, as all VAT collected is payable to HM Revenue & Customs and all VAT paid is recoverable from them.

24 Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA *Best Value Accounting Code of Practice 2010/11* (BVACOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the Authority's status as a multi-functional, democratic organisation; and
- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early.

These two cost categories are defined in BVACOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of the Surplus/Deficit on Continuing Operations.

We charge the cost of management and administration to Corporate and Democratic Core and front-line services in line with the Best Value Accounting Code of Practice. The costs are charged directly where appropriate, with the rest of the costs being shared in various suitable ways, as set out below:

Support service	Method of charging
Facilities management	All based on floor area
Central despatch	All based on actual use
Design and print	All based on actual use
Repairs and maintenance	Charged in line with actual spending
Property services	All based on floor area
Information and communication technology and central phones	Based on previous year's percentages
Financial services	Audit charged by actual use and the rest based on the directorate total spending
Corporate legal costs	Debt collection charged by actual use and the rest based on the directorates' spending
Fleet management	All based on the amount used by services
Personnel department	All based on staff numbers
Committee services	All based on percentage of work carried out
Somerset Direct	All based on calls made to Somerset Direct
Central lease charges	Charged in line with actual spending on behalf of the service

25 Inventories and Long Term Contracts

Inventories are included in the Balance Sheet at the lower of cost and net realisable value.

Long term contracts are accounted for on the basis of charging the Surplus or Deficit on the Provision of Services with the value of works and services received under the contract during the financial year.

26 Foreign Currency Translation

Where the Authority has entered into a transaction denominated in a foreign currency, the transaction is converted into sterling at the exchange rate applicable on the date the transaction was effective.

27 Events after the Balance Sheet Date

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- Those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events; and
- Those that are indicative of conditions that arose after the reporting period – the Statement of Accounts are not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by Somerset County Council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other unusable reserves (i.e. those reserves created for the requirements of capital accounting).

The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the Authority's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance.

The Net Increase /Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

Movement in Reserves Statement
For the years ended 31 March 2010 & 2011

	Note	Schools General Fund Balance £m	Other General Fund Balance £m	Earmarked Reserves £m	Capital Receipts Reserve £m	Capital Grants & Contributions Unapplied £m	Total Usable Reserves £m	Unusable Reserves £m	Total Authority Reserves £m
Balance as at 1 April 2009		**27.330**	**12.506**	**24.100**	**10.743**	**7.385**	**82.064**	**564.564**	**646.628**
Movement in Reserves during 2009/10									
Surplus or (deficit) on provision of services		-	-66.635	-	-	-	-66.635	-	-66.635
Other Comprehensive Income and Expenditure		-	-	-	-	-	-	-228.451	-228.451
Total Comprehensive Income and Expenditure		**-**	**-66.635**	**-**	**-**	**-**	**-66.635**	**-228.451**	**-295.086**
Adjustments between accounting basis & funding basis under regulations	7	-	66.470	-	-1.400	-3.550	61.520	-61.520	-
Net Increase/(Decrease) before transfers to Earmarked Reserves		**-**	**-0.165**	**-**	**-1.400**	**-3.550**	**-5.115**	**-289.971**	**-295.086**
Transfers to/(from) Earmarked Reserves	8	3.278	1.814	-5.092	-	-	-	-	-
Increase/(Decrease) in Year		**3.278**	**1.649**	**-5.092**	**-1.400**	**-3.550**	**-5.115**	**-289.971**	**-295.086**
Balance as at 31 March 2010 carried forward		**30.608**	**14.155**	**19.008**	**9.343**	**3.835**	**76.949**	**274.593**	**351.542**
Movement in Reserves during 2010/11									
Surplus or (deficit) on provision of services		-	19.881	-	-	-	19.881		19.881
Other Comprehensive Income and Expenditure		-	-	-	-	-	-	107.262	107.262
Total Comprehensive Income and Expenditure		**-**	**19.881**	**-**	**-**	**-**	**19.881**	**107.262**	**127.143**
Adjustments between accounting basis & funding basis under regulations	7	-	-14.398	-	-1.654	4.725	-11.327	11.327	-
Net Increase/(Decrease) before transfers to Earmarked Reserves		**-**	**5.483**	**-**	**-1.654**	**4.725**	**8.554**	**118.589**	**127.143**
Transfers to/(from) Earmarked Reserves	8	-0.525	-4.552	5.077	-	-	-	-	-
Increase/(Decrease) in Year		**-0.525**	**0.931**	**5.077**	**-1.654**	**4.725**	**8.554**	**118.589**	**127.143**
Balance as at 31 March 2011		**30.083**	**15.086**	**24.085**	**7.689**	**8.560**	**85.503**	**393.182**	**478.685**

Comprehensive Income and Expenditure Statement

This statement shows the cost of providing services in the year in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. The taxation position is shown in the Movement in Reserves Statement.

31 March 2010				31 March 2011			
(Restated) £millions Expenditure	(Restated) £millions Income	(Restated) £millions Net	**Comprehensive Income and Expenditure Statement for the year ended 31 March 2011**	£millions Expenditure	£millions Income	£millions Net	Notes
3.352	-1.697	1.655	Central services to the public	3.257	-2.273	0.984	9
67.895	-22.587	45.308	Cultural, environmental, regulatory and planning services	69.314	-21.398	47.916	9
515.167	-401.649	113.518	Education and children's services	528.632	-412.269	116.363	9
67.801	-17.620	50.181	Highways and transport services	67.905	-20.330	47.575	9
20.203	-0.920	19.283	Housing services	18.258	-1.312	16.946	9
207.926	-68.567	139.359	Adult social care	206.339	-67.868	138.471	9
4.780	-0.008	4.772	Corporate and democratic core	4.760	-0.001	4.759	9
-	-0.812	-0.812	Non-distributed costs	-	-95.038	-95.038	9
887.124	**-513.860**	**373.264**	**(Surplus) / Deficit on Continuing Operations**	**898.465**	**-620.489**	**277.976**	
29.149	-0.097	29.052	Other operating expenditure	80.040	-20.714	59.326	5/11
-	-	-	Reversal of Icelandic investment impairment	-	-2.253	-2.253	5
37.052	-5.629	31.423	Financing and investment income and expenditure	37.886	-3.646	34.240	13
-	-367.104	-367.104	Taxation and non-specific grant income	-	-389.170	-389.170	14
		66.635	**(Surplus) or Deficit on Provision of Services**			**-19.881**	
		-22.351	(Surplus) or Deficit on revaluation of fixed assets			-2.328	12
		250.802	Actuarial (gains) / losses on pension assets/liabilities			-104.934	50
		228.451	**Other Comprehensive Income and Expenditure**			**-107.262**	
		295.086	**Total Comprehensive Income and Expenditure**			**-127.143**	

Balance Sheet as at 31 March 2011

The Balance Sheet shows the value of the assets and liabilities recognised by the authority as at the Balance Sheet date

1st April 2009 (Restated) £millions	31st March 2010 (Restated) £millions	Balance Sheet as at 31st March 2011	31st March 2011 £millions	Notes
1,164.217	1,173.793	Property, Plant & Equipment	1,111.060	25
1.709	1.638	Intangible Assets	1.566	26
-	-	Assets held for sale	-	28
23.348	11.968	Long term Investments	8.190	31
26.714	26.688	Long term debtors	25.601	31
1,215.988	**1,214.087**	**Long term assets**	**1,146.417**	
151.463	101.405	Short term Investments	114.508	31
-	-	Assets held for sale	7.880	28
0.622	0.517	Inventories	0.459	33
49.173	61.071	Short term debtors	54.000	34
28.860	36.840	Cash and cash equivalents	50.632	41
230.118	**199.833**	**Current Assets**	**227.479**	
-81.235	-94.205	Short term creditors	-96.339	35
-8.418	-14.117	Capital Grants/Contributions Receipts in Advance	-12.344	38
-3.421	-3.485	Provisions	-4.277	36
-44.438	-8.088	Short term borrowing	-8.854	31
-5.274	-7.850	Overdraft	-4.989	41
-142.786	**-127.745**	**Current Liabilities**	**-126.803**	
-	-0.768	Provisions	-0.768	36
-357.622	-357.804	Long term borrowing	-357.886	31
-290.534	-563.209	Other long term liabilities	-394.495	37
-8.536	-12.852	Capital Grants/Contributions Receipts in Advance	-15.259	38
-656.692	**-934.633**	**Long term liabilities**	**-768.408**	
646.628	**351.542**	**Net Assets**	**478.685**	
		Usable reserves		
27.330	30.608	General Fund - Schools	30.083	8/39
12.506	14.155	General Fund - Other	15.086	39
24.100	19.008	Earmarked Reserves - set aside for revenue purposes	24.085	8/39
10.743	9.343	Capital Receipts Reserve	7.689	39
7.385	3.835	Capital Grants/Contributions Unapplied Reserve	8.560	39
82.064	**76.949**		**85.503**	
		Unusable reserves		
270.546	277.385	Revaluation Reserve	256.565	40
604.170	574.496	Capital Adjustment Account	539.494	40
-7.016	-	Financial Instruments Adjustment Account	-	40
-290.163	-562.781	Pensions Reserve	-394.074	40
0.319	0.431	Collection Fund Adjustment Account	1.756	40
-13.292	-14.938	Accumulated Compensated Absences Adjustment Account	-10.559	40
564.564	**274.593**		**393.182**	
646.628	**351.542**	**Total Reserves**	**478.685**	

KBNacey

Kevin Nacey CPFA, Service Director – Finance & Property
30 June 2011

If we refer to a note number in the right-hand column, there is a further explanation in the section 'Notes to the core financial statements'

The net assets of the Authority (assets less liabilities) are matched by the reserves held by the Authority. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the authority may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves is those that the authority is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments Between Accounting Basis and Funding Basis Under Regulations'.

Cash Flow statement

The Cash Flow Statement shows the changes in cash and cash equivalents of the authority during the reporting period.

The statement shows how the Authority generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the authority are funded by way of taxation and grant income or from the recipients of services provided by the Authority. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Authority's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Authority.

2009/10 (Restated) £millions		2010/11 £millions	Notes
66.635	Net surplus (-) or deficit on the provision of services	-19.881	
-112.725	Adjustments to net surplus or deficit on the provision of services for non cash movements	-68.675	**42**
31.669	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	43.828	
-14.421	Net cash flows from Operating Activities	**-44.728**	**42**
-26.536	Investing Activities	30.500	**43**
35.553	Financing Activities	-2.425	**44**
-5.404	**Net (increase) or decrease in cash and cash equivalents**	**-16.653**	
23.586	**Cash and cash equivalents at the beginning of the reporting period**	**28.990**	
28.990	**Cash and cash equivalents at the end of the reporting period**	**45.643**	**41**

For the purposes of the cash flow, cash and cash equivalents include the overdraft.

If we refer to a note number in the right-hand column, there is a further explanation in the section 'Notes to the core financial statements'.

Notes to core financial statements

Note 1: Transition to IFRS

The Statement of Accounts for 2010/11 is the first to be prepared on an International Financial Reporting Standards (IFRS) basis. Adoption of the IFRS-based Code has resulted in the restatement of various balances and transactions, therefore some amounts presented in the financial statements are different from the equivalent figures presented in the Statement of Accounts for 2009/10.

The following tables explain the material differences between the amounts presented in the 2009/10 financial statements and the equivalent amounts presented in the 2010/11 financial statements.

Short-term accumulated compensated absences

Short-term accumulated compensated absences refers to benefits that employees receive as part of their contract of employment, entitlement to which is built up as they provide services to the Authority. The most significant benefit being covered by this heading is holiday pay.

Employees build up an entitlement to paid holidays as they work. Under the Code, the cost of providing holidays and similar benefits is required to be recognised when employees render service that increases their entitlement to future compensated absences. As a result, the Authority is required to accrue for any annual leave, flexi time and other benefits earned but not taken at 31 March each year. Under the previous accounting arrangements, no such accrual was required.

The Government has issued regulations that mean local authorities are only required to fund holiday pay and similar benefits when they are used, rather than when employees earn the benefits. Amounts are transferred to the Accumulated Absences Account until the benefits are used. Accruing for short-term accumulated compensated absences has resulted in the following changes being made to the 2009/10 financial statements:

Opening 1 April 2009 Balance Sheet

	2009/10 Statements £millions	Adjustments Made £millions
Short-term creditors and payments in advance	-82.707	-13.292
Accumulated Absences Account	-	-13.292

31 March 2010 Balance Sheet

	2009/10 Statements £millions	Adjustments Made £millions
Short-term creditors and payments in advance	-96.631	-1.646
Accumulated Absences Account	-	-1.646

2009/10 Comprehensive Income & Expenditure Statement

	2009/10 Statements £millions	Adjustments Made £millions
Cost of Services (Net):		
Central services to the public	0.586	0.002
Cultural, environmental, regulatory and planning services	44.856	-0.061
Education and children's services	106.645	1.635
Highways and transport services	48.047	0.026
Adult social care	139.369	-0.001
Corporate and democratic core	4.777	-0.005
Other operating expenditure	27.898	0.050

Leases

Under the Code, leases of property are accounted for as separate leases of land and buildings. Previously, each property lease would have been accounted for as a single lease. The change in accounting treatment can result in the land or buildings element of the lease being accounted for as an operating lease where it was previously treated as a finance lease; or as a finance lease where it was previously treated as an operating lease.

The Government has issued regulations and statutory guidance in relation to accounting for leases. Under these arrangements, the annual charge to the General Fund (where the Authority is the lessee) will be unchanged. Where the Authority is the lessor, the regulations allow the Authority to continue to treat the income from existing leases in the same way as it accounted for the income prior to the introduction of the Code.

The Authority has several property leases where the accounting treatment has changed following the introduction of the Code. These are:

Arrangements where the Authority are acting as lessee

Details of Leased Property	Leased from	Start of Lease	Lease Term
Taunton Library	Taunton Deane Borough Council	27 October 1993	99 years
A358 Convent Link Road	South Somerset District Council	13 December 1999	999 years
Parking Area Crowcombe Gate/Triscombe	Mr NLA Bucknall	31 October 1969	999 years
72 South Street/King George Street Yeovil	South Somerset District Council	01 April 1974	99 years
Library - Alpha House, Highbridge	Sedgemoor District Council	06 January 1999	99 years
Library - North Petherton	Mr HASJ Chisman	28 September 1983	125 years
Library - Crewkerne	LMK Overseas Investments Ltd	25 May 1979	99 years
Martock Library	Co-Operative Retail Services	13 September 1971	99 years

Arrangements where the Authority are acting as lessor

Details of Leased Property	Leased to	Start of Lease	Lease Term
Shire Hall - part of	The Secretary of State for the Environment	25 July 1990	125 years

As a consequence of classifying these leases as finance leases, the financial statements have been amended as follows:

- The Authority has recognised an asset for all properties where the Authority act as lessee. A finance lease liability has been recognised for the lease payments due over the term of the lease for Taunton Library, but the other lease arrangements are for a peppercorn therefore no lease liability has been recognised;
- The Authority has de-recognised the part of Shire Hall leased to the Secretary of State for the Environment. The lease arrangement is for a peppercorn rent so no long-term debtor has been recognised;
- The operating lease charge within Cultural, Environmental, Regulatory and Planning Services has been reduced by the amount that relates to the building element of the lease payments for Taunton Library;
- A depreciation charge has been included within Cultural, Environmental, Regulatory and Planning Services;
- The interest of the Taunton Library lease payment in respect of the buildings element has been charged to the Financing and Investment Income and Expenditure line in the Surplus or Deficit on the Provision of Services.

This has resulted in the following changes being made to the 2009/10 financial statements:

Opening 1 April 2009 Balance Sheet

	2009/10 Statements £millions	Adjustments Made £millions
Property, Plant and Equipment	1,103.969	-0.057
Other Long-Term Liabilities (finance lease liabilty)	-0.030	-0.341
Capital Adjustment Account	467.619	-0.398

31 March 2010 Balance Sheet

	2009/10 Statements £millions	Adjustments Made £millions
Property, Plant and Equipment	1,114.339	-0.061
Other Long-Term Liabilities (finance lease liability)	-0.090	-0.338
Capital Adjustment Account	420.851	-0.399

2009/10 Comprehensive Income & Expenditure Statement

	2009/10 Statements £millions	Adjustments Made £millions
Education & Children's services	106.645	-0.004
Cultural, environmental, regulatory and planning services	44.856	-0.009
Financing and Investment Income and Expenditure	10.704	0.014

The net change to Cultural, Environmental, Regulatory and Planning Services consists of the removal of the operating lease charge for the buildings element of the lease (reduction of £17,250) and the inclusion of the depreciation charge (increase of £7,778). A net reduction of £9.472 million.

The change to Education and Children's Services relates to the write-back of a depreciation charge that would not have been chargeable under the new regulations.

The net increase in the Surplus or Deficit on the Provision of Services is removed by the transfer of the depreciation charge to the Capital Adjustment Account. This transfer is shown in the Movement in Reserves Statement.

Substance over form

The Code states that if information is to represent faithfully the transactions and other events that it purports to represent, it is necessary that they are accounted for and presented in accordance with their substance and economic reality and not merely their legal form. Under the Code, an asset of the authority is defined as being a resource controlled by the authority as a result of past events and from which economic benefits or service potential are expected to flow to the authority.

During the restatement process, the use of Voluntarily Controlled (VC) schools (where ownership of the school lies with an external charity but the authority is responsible for running the school) was identified as being a transaction that should be reported as an asset to the authority under the substance over form principle (see our accounting policy on accounting for schools for more details).

The financial statements have therefore been amended as follows:

- The Authority has recognised as assets all properties relating to VC schools where the Authority acts as lessee (under IAS17) for nil value, as no consideration is payable to the trusts. A formal valuation was then carried out during 2010/11, and the assets were increased up to their fair value with the corresponding increase being credited to the Revaluation Reserve;
- A depreciation charge has been included within Education and Children's Services with the corresponding amount being transferred from the Revaluation Reserve to the Capital Adjustment Account to off-set the additional charge.

This has resulted in the following changes being made to the 2009/10 financial statements:

Opening 1 April 2009 Balance Sheet

	2009/10 Statements £millions	Adjustments Made £millions
Property, Plant and Equipment	1,103.969	62.530
Revaluation Reserve	209.406	62.530

31 March 2010 Balance Sheet

	2009/10 Statements £millions	Adjustments Made £millions
Property, Plant and Equipment	1,114.339	61.121
Revaluation Reserve	216.555	61.121

2009/10 Comprehensive Income and Expenditure Statement

	2009/10 Statements £millions	Adjustments Made £millions
Education & Children's services	106.645	1.409

Valuation of Surplus Properties

Under the Code, any properties deemed surplus to requirements at the balance sheet date are required to be valued at their fair value prior to being deemed surplus. This has resulted in a plot of land, which had been previously recognised at market value, being recognised under on an existing use (EUV) basis.

This has resulted in the following changes being made to the 2009/10 financial statements:

Opening 1 April 2009 Balance Sheet

	2009/10 Statements £millions	Adjustments Made £millions
Property, Plant and Equipment	1,103.969	-2.225
Revaluation Reserve	209.406	-0.073
Capital Adjustment Account	467.619	-2.152

31 March 2010 Balance Sheet

	2009/10 Statements £millions	Adjustments Made £millions
Property, Plant and Equipment	1,114.339	-2.225
Revaluation Reserve	216.555	-0.073
Capital Adjustment Account	420.851	-2.152

Government Grants & Contributions (Capital)

Under the Code, grants and contributions for capital schemes are recognised as income when they become receivable. Previously, grants were held in a grants deferred account and recognised as income over the life of the assets which they were used to fund.

As a consequence of adopting the accounting policy required by the Code, the financial statements have been amended as follows:

- The balance on the Government Grants Deferred Account at 31 March 2009 has been transferred to the Capital Adjustment Account in the opening 1 April 2010 balance sheet;
- The balance on the Unapplied Capital Grants at 31 March 2009 within the liabilities section of the balance sheet has been transferred to the Capital Grants Unapplied Account within the reserves section of the balance sheet where no conditions existed. Where conditions did exist at year-end the balance has been transferred to the 'Capital Grant Receipts In Advance' in the opening figures for the 2010 Balance Sheet;
- A grant that had been reported as a Creditor during 2008/09 needed reclassifying under the Code; as 'Capital Grants Receipts In Advance;
- Portions of government grants deferred were previously recognised as income in 2009/10; these have been removed from the Comprehensive Income and Expenditure Statement in the comparative figures;
- A number of grants were received in 2009/10 but not used. Previously, no income was recognised in respect of this grant, which was shown in the Grants Unapplied Account within the liabilities section of the balance sheet. Following the change in accounting policy, the grants have been recognised in full and transferred to the Capital Grants Unapplied Account within the reserves section of the balance sheet;
- A capital grant was recognised as income during 2009/10 when the asset it was used to fund was sold. Under the Code, this grant had already been recognised as income as part of the 1 April 2009 restatement, so an adjustment had to be made to the comparative figures in both the 'Other operating expenditure line' of the Comprehensive Income and Expenditure Statement and the Capital Adjustment Account;
- A number of donated waste vehicles that were previously recognised in our asset register with a matching entry recognised in the Revaluation Reserve needed to have the Revaluation Reserve entry transferred to the Capital Adjustment Account, as under the Code there were no outstanding conditions in existence at 31 March 2009 for these assets.

This has resulted in the following changes being made to the 2009/10 financial statements:

Opening 1 April 2009 Balance Sheet

	2009/10 Statements £millions	Adjustments Made £millions
Government Grants Deferred Account	-137.784	137.784
Unapplied Capital Grant/Contributions (Current Liability)	-12.407	12.407
Capital Adjustment Account	467.619	139.101
Unapplied Capital Grant/Contributions (Usable Reserve)	-	7.385
Capital Grants Receipts In Advance	-	-16.954
Revaluation Reserve	209.406	-1.317
Current Liabilities - Short-term creditors	-82.707	11.932

31 March 2010 Balance Sheet

	2009/10 Statements £millions	Adjustments Made £millions
Government Grants Deferred Account	-155.359	155.359
Unapplied Capital Grant/Contributions (Current Liability)	-14.159	14.159
Capital Adjustment Account	420.851	156.676
Unapplied Capital Grant/Contributions (Usable Reserve)	-	3.835
Capital Grants Receipts In Advance	-	-26.969
Current Liabilities - Short-term creditors	-96.631	16.645

2009/10 Comprehensive Income & Expenditure Statement

	2009/10 Statements £millions	Adjustments Made £millions
Cost of Services (Net):		
Cultural, environmental, regulatory and planning services	44.856	0.673
Education and children's services	106.645	3.770
Highways and transport services	48.047	1.944
Housing services	16.572	0.169
Adult social care	139.369	0.496
Other operating expenditure	27.898	1.104
Taxation and non-specific grant income	-344.923	-22.181

Government Grants & Contributions (Revenue)

Under the Code, grants and contributions for revenue purposes are recognised as income when they become receivable. Previously, unspent revenue grants and contributions were held as a receipt in advance on the balance and only recognised as income when the expenditure was incurred.

As a consequence of adopting the accounting policy required by the Code, the financial statements have been amended as follows:

- A number of grants that were treated as Receipts In Advance at 31 March 2009 have been recognised as income during 2008/09, and transferred to the Usable Reserves within the Balance Sheet;
- Some revenue grants and contributions that had previously been recognised as Receipts In Advance during 2008/09 were recognised as income in 2009/10; these have been removed from the Comprehensive Income and Expenditure Statement in the comparative figures;
- A number of grants that were treated as Receipts In Advance at 31 March 2010 have been recognised as income during 2009/10.

This has resulted in the following changes being made to the 2009/10 financial statements:

Opening 1 April 2009 Balance Sheet

	2009/10 Statements £millions	Adjustments Made £millions
Current Liabilities - Short-term creditors/receipts in advance	-82.707	2.832
Reserves set aside for revenue purposes	21.268	2.832

31 March 2010 Balance Sheet

	2009/10 Statements £millions	Adjustments Made £millions
Current Liabilities - Short-term creditors/receipts in advance	-96.631	0.719
Reserves set aside for revenue purposes	18.289	0.719

2009/10 Comprehensive Income & Expenditure Statement

	2009/10 Statements £millions	Adjustments Made £millions
Cost of Services (Net):		
Cultural, environmental, regulatory and planning services	44.856	-0.151
Education and children's services	106.645	0.063
Highways and transport services	48.047	0.164
Housing Services	16.572	2.073
Adult social care	139.369	-0.036

Cash and Cash Equivalents

The Code requires local authorities to classify cash and cash equivalents in their opening balance sheet (1st April 2009). Cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. The Code also permits local authorities to reclassify bank overdrafts as cash equivalents when they are an integral part of the authorities' cash management.

As a consequence, we have reclassified some of our short-term investments (see our accounting policy for cash and cash equivalents for more details) and bank overdraft as cash equivalents. This has resulted in the following changes being made to the 2009/10 financial statements:

Opening 1 April 2009 Balance Sheet

	2009/10 Statements £millions	Adjustments Made £millions
Cash in hand	14.047	-14.047
Cash and cash equivalents	0.000	28.860
Overdraft	-19.321	14.047
Short-term investments	180.323	-28.860

31 March 2010 Balance Sheet

	2009/10 Statements £millions	Adjustments Made £millions
Cash in hand	18.457	-18.457
Cash and cash equivalents	0.000	36.840
Overdraft	-7.957	0.107
Short-term investments	119.895	-18.490

Note 2: Accounting Standards That Have Been Issued but Have Not Yet Been Adopted

The Authority has yet to adopt the following accounting standard.

FRS 30 Heritage Assets - This standard requires the disclosure of heritage assets as a separate class of asset within our balance sheet.

In accordance with FRS 30, we are planning to disclose heritage assets as a separate asset class for the first time in the 2011/12 financial statements. This will represent a change in accounting policy for 2011/12, and will require us to apply the change retrospectively (during 2011/12) to balances reported in the 2010/11 accounts.

In previous years, heritage asset acquisitions have largely been expended through revenue and therefore not been reported as assets to the authority in our accounts. With the adoption of FRS 30 in 2011/12, heritage assets (currently valued at £13.5 million for insurance purposes) will be recognised as assets to the authority where information is available on their cost or value. As these assets were not recognised as assets prior to the adoption of FRS 30, it is anticipated that a revaluation gain of up to £13.5 million will be recognised on reclassification during 2011/12.

Under FRS 30, depreciation does not need to be provided for heritage assets with indefinite economic lives. As the majority of the heritage assets likely to be recognised during 2011/12 will have indefinite economic lives, no impact on the overall depreciation charge to the authority is anticipated.

Note 3: Critical Judgements in Applying Accounting Policies

In applying the accounting policies, Somerset County Council has had to make certain judgements about complex transactions or those involving uncertainty about future events.

The critical judgements made in the Statement of Accounts are:

- There is a high degree of uncertainty about future levels of funding for local government. However, the Authority has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Authority might be impaired as a result of a need to close facilities and reduce levels of service provision.
- As discussed in Note 1, the Authority has had to review its leases to ensure that where appropriate, leases are re-classified as finance leases rather than operating leases under IFRS.
- The Authority has reviewed its relationships with other entities and has concluded that we still only have PLUSS Ltd which would fall under the Group Accounts criteria.
- We have also reviewed our use of provisions to ensure that we have accounted for circumstances which meet the criteria in the appropriate way. This year we have identified a larger number of provisions than in the previous year. We have taken a robust approach to ensure that we have correctly accounted for these.
- The Authority has continued to take a prudent view of our Icelandic investments and have continued to account for Glitnir bank as if we were non-preferential creditors. This means that our investments are shown at a lower level than we may receive if we are later confirmed as a preferential creditor. This also means that we would be able to reduce the impairment we are showing on the Iceland investments, but until the appeal has been heard we feel it is prudent to continue with this stance.

Note 4: Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty

The Statement of Accounts contains estimated figures that are based on assumptions made by Somerset County Council about the future. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Balance Sheet at 31 March 2011 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Depreciation	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it more difficult to sustain spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls.
Provisions	The Authority has made several provisions this year which highlight the changing economic climate. We have provisions for costs already committed to but where we may not be able to continue the service.	Further closures will increase costs in the coming years but with the savings not being seen until later years.
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. We instruct Barnett Waddington, a firm of actuaries, to make these sensitive judgements on our behalf.	The effects on the net pensions liability of changes in individual assumptions can be measured. For instance, a 0.1% increase in the discount rate assumption would result in a decrease in the pension liability of £22,536,000. However, the assumptions interact in complex ways. During 2010/11, the Authority's actuaries advised that the net pensions liability had decreased by £25,161,000 as a result of experience adjustments on Scheme liabilities.
Accruals	The Authority makes a large number of accruals at the year end to account for timing differences in expenditure and income. Each service area is responsible for its own accruals and this helps with accuracy due to access to the right documentation to identify when accruals are appropriate.	If accruals are not correctly estimated they can have a substantial effect on the current year's result and consequently the following year when the accrual is reversed.
Employee benefit accrual	The Authority is required to make an accrual for the value of employee benefits carried over at the year end. The accrual includes teachers and non teaching SCC staff, excluding term time only contracts. <u>Assumptions within the accrual</u> The teachers pay is based on actual salaries and actual days carried forward. The only assumption made is that 99.5% of teachers continue in their job or leave the authority. The other 0.5% are assumed to resign from one job and take up another position with the Authority.	If accruals are not correctly estimated they can have a substantial effect on the current year's result and consequently the following year when the accrual is reversed. The accrual may be too high/low for the movement in the percentage of teachers taking up another position differs.

	The SCC staff accrual has a few assumptions: 1) A sample was made to calculate the average leave and flexi time carried forward. This is applied to all staff for a period of 3 years before re-sampling. 2) An average rate for national insurance and superannuation has been made based on the actual charge for the year. This average has been applied to all staff. 3) We have reviewed which services staff left from and concluded that the effect is not material. This implies that these staff do not carry over or owe excessive amounts of leave/flexi.	1) If actuals differ from the sample average, the accrual may be substantially under or over estimated. 2) SAP's limitation on Payroll reporting means we cannot show the actual rates paid per person. Some staff will not pay superannuation or have different national insurance rates to the average. The value of the accrual may be over/under estimated. 3) If the staff that left held excessive amounts of leave and flexi and this was paid off, it would affect the sample calculation and the accrual may be over/under estimated.
Academies	During the coming year a number of schools will move to Academy status. There is a large number of accounting and operational processes which have to be completed to ensure the transition is effected accurately and positively.	If the assets relating to these schools are not accounted for correctly or if schools do not move to Academy status but this is not communicated there is a high risk that our balance sheet will be affected.

Note 5: Material Items of Income and Expense

Within other operating expenditure on the face of the Comprehensive Income and Expenditure Statement we have some large items of expenditure. We have £1.064m of redundancy costs which we have been allowed by Central Government to spread over future years in order to reduce the immediate impact. These costs have been capitalised and appear on our balance sheet.

We have also made our first payment towards the Iceland impairment that we capitalised and £1m has been repaid of the £9.939m that was originally capitalised.

Shown separately on the face of the Comprehensive Income and Expenditure Statement, we have amended our Icelandic impairment this year with a better likely return on the money that has been tied up in Iceland. We have therefore reduced our impairment by £2.253m. This has reduced our liability in the Balance Sheet and increased the value of our investments.

Note 6: Events after the Balance Sheet Date

We continue to monitor the progress of over twenty schools which are likely to move to Academy status before the end of September. This will mean that in 2011/12 our Balance Sheet will reduce by £237.501m in respect of the assets that are transferring with them. Their reserves will also move with them, and will be calculated at the time of move. At this stage it is not possible to give a reasonable estimate of what these reserve balances will be.

Note 7: Adjustments between Accounting Basis and Funding Basis under Regulation

This note details the adjustments that are made to the total comprehensive income and expenditure recognised in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to Somerset County Council to meet future capital and revenue expenditure.

Adjustments between accounting basis and funding basis under regulations for the year ended 31 March 2011	**General Fund Balance £millions**	**Earmarked Reserves £millions**	**Capital Receipts Reserve £millions**	**Capital Grants & Contributions Unapplied £millions**	**Total Usable Reserves £millions**	**Unusable Reserves £millions**	**Total Authority Reserves £millions**
Adjustments involving the Capital Adjustment Account:							
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement							
Charges for depreciation and impairment of non current assets	59.864	-	-	-	59.864	-59.864	-
Charges for impairment of non current assets held for sale	2.936	-	-	-	2.936	-2.936	-
Revaluation losses on property, plant and equipment	1.246	-	-	-	1.246	-1.246	-
Capitalised redundancy costs	1.064	-	-	-	1.064	-1.064	-
Amortisation of intangible assets	0.071	-	-	-	0.071	-0.071	-
Capital grants and contributions	-40.763	-	-	3.354	-37.409	37.409	-
Movement in the donated assets account	-	-	-	-	-	-	-
Reduction of Icelandic Investment Impairment	-2.253	-	-	-	-2.253	2.253	-
Revenue expenditure funded from capital under statute	5.403	-	-	-	5.403	-5.403	-
Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	56.346	-	-	-	56.346	-56.346	-
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement							
Statutory provision for the financing of capital investment	-20.506	-	-	-	-20.506	20.506	-
Capital expenditure charged against the General Fund	-3.198	-	-	1.371	-1.827	1.827	-
Adjustments involving the Capital Receipts Reserve:							
Transfer of sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	-5.229	-	5.229	-	-	-	-
Use of the capital receipts reserve to finance new capital expenditure	-	-	-6.785	-	-6.785	6.785	-
Contribution from the capital receipts reserve towards administration costs of non current asset disposals	0.098	-	-0.098	-	-	-	-
Contribution from the capital receipts reserve to finance the payments to the government capital receipts pool	-	-	-	-	-	-	-
Adjustments involving the Financial Instruments Adjustment Account:							
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	-	-	-	-	-	-	-
Adjustments involving the Pensions Reserve:							
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	-35.441	-	-	-	-35.441	35.441	-
Employer's pension contributions and direct payments to pensioners payable in the year	-28.332	-	-	-	-28.332	28.332	-
Adjustments involving the Collection Fund Adjustment Account:							
Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	-1.325	-	-	-	-1.325	1.325	-
Adjustment involving the accumulating compensated absences adjustment account:							
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	-4.379	-	-	-	-4.379	4.379	-
Total adjustments between accounting basis & funding basis under regulations	**-14.398**	-	**-1.654**	**4.725**	**-11.327**	**11.327**	-

Adjustments between accounting basis and funding basis under regulations for the year ended 31 March 2010	General Fund Balance £millions	Earmarked Reserves £millions	Capital Receipts Reserve £millions	Capital Grants & Contributions Unapplied £millions	Total Usable Reserves £millions	Unusable Reserves £millions	Total Authority Reserves £millions
Adjustments involving the Capital Adjustment Account:							
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement							
Charges for depreciation and impairment of non current assets	48.165	-	-	-	48.165	-48.165	-
Revaluation losses on property, plant and equipment	1.360	-	-	-	1.360	-1.360	-
Movement in the market value of investment properties	-	-	-	-	-	-	-
Amortisation of intangible assets	0.071	-	-	-	0.071	-0.071	-
Capital grants and contributions	-22.282	-	-	-3.550	-25.832	25.832	-
Movement in the donated assets account	-						
Revenue expenditure funded from capital under statute	7.369	-	-	-	7.369	-7.369	-
Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	28.126	-	-	-	28.126	-28.126	-
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement							
Statutory provision for the financing of capital investment	-17.900	-	-0.208	-	-18.108	18.108	-
Capital expenditure charged against the General Fund	-0.328	-	-	-	-0.328	0.328	-
Adjustments involving the Capital Receipts Reserve:							
Transfer of sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	-4.384	-	4.384	-	-	-	-
Use of the capital receipts reserve to finance new capital expenditure	-	-	-5.576	-	-5.576	5.576	-
Contribution from the capital receipts reserve towards administration costs of non current asset disposals	-	-	-	-	-	-	-
Contribution from the capital receipts reserve to finance the payments to the government capital receipts pool	-	-	-	-	-	-	-
Adjustments involving the Financial Instruments Adjustment Account:							
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	2.923	-	-	-	2.923	-2.923	-
Adjustments involving the Pensions Reserve:							
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	49.053	-	-	-	49.053	-49.053	-
Employer's pension contributions and direct payments to pensioners payable in the year	-27.237	-	-	-	-27.237	27.237	-
Adjustments involving the Collection Fund Adjustment Account:							
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	-0.112	-	-	-	-0.112	0.112	-
Adjustment involving the accumulating compensated							
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	1.646	-	-	-	1.646	-1.646	-
Total adjustments between accounting basis & funding basis under regulations	**66.470**	**-**	**-1.400**	**-3.550**	**61.520**	**-61.520**	**-**

Note 8: Transfers to/from Earmarked Reserves

This note shows the amounts set aside from the General Fund in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund in 2010/11.

	Balance as at 01 April 2009	Transfers Out 2009/10	Transfers In 2009/10	Net Movement 2009/10	Balance at 31 March 2010	Transfers Out 2010/11	Transfers In 2010/11	Net Movement 2010/11	Balance at 31 March 2011
	£millions	£millions	£millions	£millions	£millions	£millions	£millions	£millions	£millions
General Fund:									
Balances held by schools under a scheme of delegation	27.330	-28.365	31.643	3.278	30.608	-30.816	30.291	-0.525	30.083
Reserves set aside for revenue purposes	24.100	-11.044	5.952	-5.092	19.008	-7.105	12.182	5.077	24.085
Total	**51.430**	**-39.409**	**37.595**	**-1.814**	**49.616**	**-37.921**	**42.473**	**4.552**	**54.168**

Note 9: Analysis of our spending on services

The Code says we must provide a detailed list, in a specific format, of our total spending on services. This means that you can easily see how we compare to other county councils' spending patterns.

2009/10 Spending less income £millions		2010/11 Total spending £millions	Total income £millions	Spending less income £millions
	Central services to the public			
0.446	Registration of births, deaths and marriages	1.435	-0.851	0.584
0.056	Cost of elections	0.078	-	0.078
0.255	Emergency planning	0.607	-0.317	0.290
-0.132	Local land charges	0.033	-0.160	-0.127
-0.037	Grants (including citizens advice bureaus)	-	-0.623	-0.623
0.991	Coroner's court	0.858	-0.002	0.856
0.076	Other court services	0.246	-0.320	-0.074
1.655		**3.257**	**-2.273**	**0.984**
	Cultural, environmental, regulatory and planning services			
0.072	Coast protection	0.251	-0.234	0.017
1.603	Community safety	0.987	-0.029	0.958
0.020	Flood defence	0.153	-0.190	-0.037
0.009	Agricultural services	1.835	-0.617	1.218
2.566	Regulatory services	3.714	-0.905	2.809
21.564	Waste disposal	37.467	-14.171	23.296
1.695	Community development	2.279	-0.328	1.951
1.227	Planning policy	2.057	-1.231	0.826
0.780	Environmental initiatives	0.806	-0.169	0.637
2.480	Economic development	3.197	-1.209	1.988
2.537	Culture and heritage	3.901	-0.465	3.436
0.926	Recreation and sport	0.157	-0.202	-0.045
2.606	Open spaces	2.874	-0.510	2.364
0.059	Tourism	1.557	-0.092	1.465
7.164	Library service	8.079	-1.046	7.033
45.308		**69.314**	**-21.398**	**47.916**
	Education and children's services			
	Delegated school funds			
0.385	Nursery schools	0.060	-	0.060
23.351	Primary schools	183.180	-146.865	36.315
13.787	Secondary schools	216.813	-202.676	14.137
10.780	Special schools	24.660	-19.113	5.547
	Non-school funding			
31.246	Strategic management of non-school services	60.482	-39.096	21.386
	Children's social care			
-	Service strategy	0.082	-	0.082
11.474	Commissioning and social work	13.778	-1.825	11.953
14.537	Looked after children	18.308	-0.480	17.828
2.705	Familty support services	3.154	-0.249	2.905
1.180	Youth justice	2.093	-1.166	0.927
-	Asylum seekers	0.238	-0.209	0.029
4.073	Other children and family services	5.784	-0.590	5.194
113.518		**528.632**	**-412.269**	**116.363**
160.481		**601.203**	**-435.940**	**165.263**

Note 9 (continued)

2009/10 Spending less income £millions		2010/11 Total spending £millions	Total income £millions	Spending less income £millions
	Highways and transport services			
5.751	Transport, planning, policy and strategy	12.838	-4.518	8.320
0.056	Highways structural maintenance	1.379	-0.212	1.167
21.946	Highways routine maintenance	15.404	-	15.404
3.272	Street lighting	4.634	-0.013	4.621
9.058	Environment safety & routine maintenance	9.028	-2.100	6.928
2.216	Managing traffic and road safety	5.895	-3.674	2.221
5.702	Public transport	16.277	-9.809	6.468
2.180	Winter maintenance	2.450	-0.004	2.446
50.181		**67.905**	**-20.330**	**47.575**
	Housing services			
18.904	Supporting people	17.906	-1.125	16.781
0.379	Other housing	0.352	-0.187	0.165
19.283		**18.258**	**-1.312**	**16.946**
	Adult social care			
0.125	Service strategy	0.126	-	0.126
74.137	Older people	108.492	-37.086	71.406
13.170	Adults with physical disabilities	14.751	-1.862	12.889
40.871	Adults with learning disabilities	65.307	-20.694	44.613
9.155	Adults with mental-health needs	10.699	-1.729	8.970
1.901	Other adult services	6.964	-6.497	0.467
139.359		**206.339**	**-67.868**	**138.471**
	Corporate and democratic core			
2.530	Democratic representation and management	2.571	-0.001	2.570
2.242	Corporate management	2.189	-	2.189
4.772		**4.760**	**-0.001**	**4.759**
	Non-distributed costs			
-0.812	(we cannot share between services)	-	-95.038	-95.038
373.264	**Total continuing services**	**898.465**	**-620.489**	**277.976**
-	**Total discontinued services**	-	-	-
373.264	**Total spending on services**	**898.465**	**-620.489**	**277.976**

Note 10: Amounts Reported for Resource Allocation Decisions

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the *Best Value Accounting Code of Practice*. However, decisions about resource allocation are taken by the Authority's Cabinet on the basis of budget reports analysed across Directorates. These reports are prepared on a different basis from the accounting policies used in the financial statements. In particular:

- No charges are made in relation to capital expenditure (whereas depreciation, revaluation and impairment losses in excess of the balance on the Revaluation Reserve and amortisations are charged to services in the Comprehensive Income and Expenditure Statement);
- The cost of retirement benefits is based on cash flows (payment of employer's pensions contributions) rather than current service cost of benefits accrued in the year; and
- Expenditure on some support services is budgeted for centrally and not charged to directorates.

Directorate Income and Expenditure 2010/11

	Adult Social Care £ millions	Learning Disabilities £ millions	Commissioning & Care £ millions	Environment £ millions	Childrens Social Care £ millions	Schools £ millions	Other Direct Services £ millions	Total £ millions
Fees, charges & other service income	61.068	4.216	7.550	43.758	3.020	34.940	19.090	173.642
Government grants	0.358	0.139	1.002	4.008	2.385	286.101	94.799	388.792
Total Income	**61.426**	**4.355**	**8.552**	**47.766**	**5.405**	**321.041**	**113.889**	**562.434**
Employee expenses	16.539	30.019	1.685	18.695	19.280	240.510	53.999	380.727
Other operating expenses	129.707	3.537	32.049	90.459	20.236	80.292	97.325	453.605
Support Service Recharges	10.583	6.692	-2.684	3.098	4.011	7.769	1.046	30.515
Total operating expenses	**156.829**	**40.248**	**31.050**	**112.252**	**43.527**	**328.571**	**152.370**	**864.847**
Net cost of services	**95.403**	**35.893**	**22.498**	**64.486**	**38.122**	**7.530**	**38.481**	**302.413**

Directorate Income and Expenditure 2009/10

	Adult Social Care £ millions	Learning Disabilities £ millions	Environment £ millions	Childrens Social Care £ millions	Schools £ millions	Other Direct Services £ millions	Total £ millions
Fees, charges & other service income	40.632	22.735	60.474	1.849	35.477	84.63	245.797
Government grants	1.184	0.299	1.117	1.558	285.865	78.41	368.433
Total Income	**41.816**	**23.034**	**61.591**	**3.407**	**321.342**	**163.04**	**614.230**
Employee expenses	15.098	32.358	19.057	18.454	243.582	52.039	380.588
Other operating expenses	113.964	24.999	102.258	16.607	83.092	173.561	514.481
Support Service Recharges	8.734	5.023	4.039	1.737	5.117	7.119	31.769
Total operating expenses	**137.796**	**62.38**	**125.354**	**36.798**	**331.791**	**232.719**	**926.838**
Net cost of services	**95.980**	**39.346**	**63.763**	**33.391**	**10.449**	**69.679**	**312.608**

The following reconciliation shows how the figures in the analysis of directorate income and expenditure relate to the amounts included in the Comprehensive Income and Expenditure Statement.

Reconciliation to Net Cost of Services in Comprehensive Income & Expenditure Statement

£ millions	Reconciliation to Net Cost of Services in Comprehensive Income and Expenditure Statement	£ millions
312.608	Cost of Service in Service Analysis	**302.413**
-	Less services not included in main analysis	-96.129
60.656	Add amounts not in management reports but needed for Comprehensive Income and Expenditure Statement	71.692
-	Remove amounts reported to management not included in Comprehensive Income and Expenditure Statement	-
373.264	**Net Cost of Services in Comprehensive Income and Expenditure Statement**	**277.976**

Reconciliation to Subjective Analysis

The reconciliation on the following page shows how the figures in the analysis of directorate income and expenditure relate to a subjective analysis of the Surplus or Deficit on the Provision of Services included in the Comprehensive Income and Expenditure Statement.

2010/11

Reconciliation to Subjective Analysis	Service Analysis £ millions	Services not in analysis £ millions	Not reported to management £ millions	Not included in CIES £ millions	Allocation of recharges £ millions	Net cost of services £ millions	Corporate amounts £ millions	Total £ millions
Fees, charges & other service income	173.642	95.038	0.315	-	-	268.995	-	268.995
Surplus or deficit on associates and joint ventures	-	-	-	-	-	-	-	-
Interest and investment income	-	-	-	-	-	-	3.646	3.646
Income from council tax	-	-	-	-	-	-	298.203	298.203
Government grants and contributions	388.792	-	-	-	-	388.792	90.967	479.759
Total Income	**562.434**	**95.038**	**0.315**	**-**	**-**	**657.787**	**392.816**	**1050.603**
Employee expenses	380.727	-	4.379	-	6.38	391.489	-	391.489
Other service expenses	453.605	-1.091	-1.895	0.004	24.132	474.755	4.483	479.238
Support service recharges	30.515	-	-		-30.515	-	-	-
Depreciation, amortisation and impairment	-	-	69.519	-	-	69.519	0.683	70.202
Interest payments	-	-	-	-	-	-	37.886	37.886
Precepts & levies	-	-	-	-	-	-	0.681	0.681
Payments to Housing Capital Receipts Pool	-	-	-	-	-	-	-	-
Gain or Loss on disposal of fixed assets	-	-	-	-	-	-	51.226	51.226
Total operating expenses	**864.847 -**	**1.091**	**72.003**	**0.004**	**-**	**935.763**	**94.959**	**1030.722**
Surplus or deficit on the provision of services	**302.413**	**-96.129**	**71.688**	**0.004**	**-**	**277.976**	**-297.857**	**-19.881**

2009/10

Reconciliation to Subjective Analysis	Service Analysis £ millions	Services not in analysis £ millions	Not reported to management £ millions	Not included in CIES £ millions	Allocation of recharges £ millions	Net cost of services £ millions	Corporate amounts £ millions	Total £ millions
Fees, charges & other service income	245.797	-	-	-	-	245.797	0.097	245.894
Surplus or deficit on associates and joint ventures	-	-	-	-	-	-	-	-
Interest and investment income	-	-	-	-	-	-	5.629	5.629
Income from council tax	-	-	-	-	-	-	284.992	284.992
Government grants and contributions	368.433	-	-8.589	-	-	359.844	82.112	441.956
Total Income	**614.23**	-	**-8.589**	-	-	**605.641**	**372.830**	**978.471**
Employee expenses	380.588	-	1.646	-	-	382.234	-	382.234
Other service expenses	514.481	-	0.513	-	31.769	546.763	4.153	550.916
Support service recharges	31.769	-	-	-	-31.769	-	-	-
Depreciation, amortisation and impairment	-	-	49.908	-	-	49.908	-	49.908
Interest payments	-	-	-	-	-	-	37.052	37.052
Precepts & levies	-	-	-	-	-	-	0.769	0.769
Payments to Housing Capital Receipts Pool	-	-	-	-	-	-	-	-
Gain or Loss on disposal of fixed assets	-	-	-	-	-	-	24.227	24.227
Total operating expenses	**926.838**	-	**52.067**	-	-	**978.905**	**66.201**	**1045.106**
Surplus or deficit on the provision of services	**312.608**	-	**60.656**	-	-	**373.264**	**-306.629**	**66.635**

Note 11: Other Operating Expenditure

2009/10 (Restated) £millions		2010/11 £millions
24.227	(Gain)/losses on the disposal of non-current assets	51.226
-	Loss on the revaluation of current assets held for sale	2.936
3.780	Impairment of Icelandic investment	-
-	Capitalised redundancy costs	1.064
0.373	(Surplus) or deficit from trading activities	3.419
	Levies:	
0.584	- Environment Agencies	0.598
0.109	- Local Strategic Partnership	0.014
0.076	- Magistrates Courts	0.069
-0.097	Other operating income	-
29.052		**59.326**

The loss on the disposal of non-current assets of £51.226 million has mainly occurred due to the transfer of three schools to Academy status during 2010/11. These schools are being transferred on a leasehold arrangement for a peppercorn rent which has resulted in a net loss on these particular assets of £53.487 million.

Note 12: Surplus or deficit on revaluation of fixed assets

2009/10 £millions		2010/11 £millions
-23.551	Revaluations gains credited to the Revaluation Reserve	-7.841
1.200	Impairment losses charged to the Revaluation Reserve	5.513
-22.351		-2.328

Note 13: Financing and Investment Income and Expenditure

This includes interest from temporarily investing our revenue balances, and the financing income element of a finance lease agreement with Somerset Care Ltd.

2009/10 £millions		2010/11 £millions
16.347	Interest payable and similar charges	16.628
20.705	Pensions interest cost and expected return on pensions assets	21.258
-5.629	Interest receivable and similar income	-3.646
31.423		**34.240**

Note 14: Taxation and Non Specific Grant Income

2009/10 £millions		2010/11 £millions
-200.339	Council Tax income	-202.240
-84.653	National Non-Domestic Rates	-95.963
-59.931	Non-ringfenced government grants	-50.204
-22.181	Capital grants and contributions	-40.763
-367.104		**-389.170**

Note 15: Trading Operations

This represents income and spending of each trading unit in the Council.

2009/10 Surplus (-) or deficit (Restated) £millions	Trading unit	Total Expenditure £millions	2010/11 Turnover (Income) £millions	Surplus (-) or deficit £millions
0.002	Charterhouse	0.243	-0.279	-0.036
0.071	Dillington House	4.206	-1.461	2.745
-0.025	Kilve	1.281	-1.360	-0.079
-0.098	Legal Services	3.119	-3.178	-0.059
-0.041	Resources 4 Learning	0.408	-0.406	0.002
0.392	SCS Catering	2.876	-2.423	0.453
-0.003	SCS Cleaning	1.660	-1.646	0.014
0.069	Somerset Skills and Learning	7.972	-7.603	0.369
0.029	Somerset Music	1.773	-1.733	0.040
-0.023	Wyvern Nursery Group	0.595	-0.625	-0.030
0.373	**(Surplus) or deficit on trading activities**	**24.133**	**-20.714**	**3.419**

The following provides a brief description of each of our trading services.

Charterhouse Centre is managed by Kilve Court but operates independently, offering outdoor and adventurous activities to support the personal and social development of people who use the service.

Dillington House is the Council's residential centre for adult education. It provides day and residential courses, talks and concerts, together with a wide range of conference facilities. The deficit shown for Dillington House is mainly due to an impairment loss on its asset value. Details are included in note 27.

Kilve Court residential centres are made up of three centres: Kilve Court, The Outdoor Centre and Great Wood. The centres offer outdoor and adventurous activities to support the personal and social development of people who use our services. Kilve Court also offers a regionally significant number of courses for able, gifted and talented students. Most people who use our services are groups from primary and secondary schools. Others include youth, community and adult groups.

Legal Services began as a trading account on 1 April 2007. The previous budget for Legal Services was split between different departments and charges to these departments have been based on the number of hours each department used the service, as set out in the Legal Services Service Level Agreement.

Resources 4 Learning provides a loans service for books and materials, mainly to Somerset schools, as well as providing specialist advice, installing library furniture, discounted purchases, off-air TV-programme recording and reprographics (copying and reproducing materials).

SCS Catering provides hot and cold meals and refreshments mainly to school children as well as other local public sector organisations. It also provides free school meals for pupils who are entitled to them.

SCS Cleaning provides caretaking and cleaning services for our services' buildings as well as other local public-sector organisations.

Somerset Skills and Learning promotes lifelong learning both within the County Council and in the wider Somerset community, including businesses, communities and individuals.

Somerset Music offers free musical and vocational tuition through open-access programmes to parents, families and carers of pupils in year 3 of primary school. The service also:

- Provides the national curriculum for music in schools that request it;
- Runs musical performances and opportunities from local through to international levels;
- Provides extended opportunities for music education and performance through music centres;
- Manages the County Youth Orchestra, Concert Band and Choir;
- Gives advice and support on music to us; and
- Provides low-cost instrument hire to parents, families and carers of pupils in Somerset.

Wyvern Nursery Group provides childcare places for children of our employees, other local public-sector employees and members of the local community.

Note 16: Agency Services

We do not include agency work in our spending summaries. We do have a payroll bureau service that had a turnover of £5.294 million in 2010/11 (£5.605 million in 2009/10).

Note 17: Pooled Budgets

We work closely with the Somerset Primary Care Trust in many areas. In three areas, we provide the same service, and share our resources to get better value for money and to provide a better service. This is known as a pooled budget. Because we host these pooled budgets, all of the activity is shown in our accounts.

The **Integrated Community Equipment Service's** pooled budget operates under the Health Act 2006. We use the budget to provide community equipment to social services' clients and the clients of the Somerset Primary Care Trust within the Somerset Health Authority area. Income and expenditure for the year are as follows.

2009/10 £millions	Integrated Community Equipment Service (previously known as the Joint Equipment Service)	2010/11 £millions
	Income from:	
-1.212	Community Services Directorate	-1.198
-0.140	Children and Young People Directorate	-0.152
-1.138	NHS Somerset (Including Continuing Healthcare Income)	-1.253
-0.005	Other Income	-0.005
-	Other Grant Income	-0.092
-2.495	Total income	-2.700
	Less the following spending:	
2.593	Equipment, delivery costs, minor work	2.647
0.087	Management and administration	0.086
2.680	Total spending	2.733
0.185	**Overspending or underspending (-)**	**0.033**

The **Adult Drug Treatment Service's** pooled budget allows us to provide effective services for adults with substance misuse problems. Income and spending for the year are as follows.

2009/10 £millions	Adult Drug Treatment Service (previously known as the drug treatment budget)	2010/11 £millions
	Income from:	
-0.711	Community Services Directorate	-0.921
-3.985	NHS Somerset (including National Treatment Agency)	-4.138
-0.036	Avon and Somerset Probation Service	-0.036
-0.058	Avon and Somerset Constabulary	-0.058
-0.173	Crime and Disorder Reduction Partnerships	-
-0.322	Home Office grant	-0.299
-	Other grants	-0.060
-0.109	Previous year's funding brought forward	-0.166
-5.394	Total income	-5.678
	Less the following spending:	
4.122	Turning Point (Including Community Access Programming)	4.047
0.251	Pharmacy related spending	0.270
0.089	Probation	0.092
0.765	Other spending	0.936
5.227	Total spending	5.345
-0.167	**Overspending or underspending (-)**	**-0.333**

The **Learning Disabilities Service's** pooled budget supports people with a learning disability to improve their quality of life.

2009/10 (Restated) £millions	Learning Disabilities Service	2010/11 £millions
	Income from:	
-33.931	Community Services Directorate	-36.029
-0.430	Pensions Equalisation Reserve	-0.420
-14.626	Somerset Primary Care Trust	-14.839
-7.202	Income from charges and grant income	-7.720
-56.189	Total income	-59.008
	Less the following spending:	
21.125	Purchasing (independent sector)	23.570
9.772	Residential services	9.631
15.992	Supported housing	15.948
6.520	Day services	6.321
3.173	Community teams	3.125
56.582	Total spending	58.595
0.393	**Overspending or underspending (-)**	**-0.413**

Note 18: Members' Allowances

The allowances paid to our Members during the year are shown below.

2009/10 (Restated) £millions		2010/11 £millions
0.560	Basic Allowance	0.568
0.216	Special Responsibility Allowance	0.188
0.070	Travel and Subsistence Expenses	0.047
0.016	Payments to Co-optees	0.015
0.862		**0.818**

Note 19: Senior Officers' Remuneration

Under regulations, we must show the number of our staff who are paid more than £50,000 a year. This is shown in the table below. Pay includes:

- Salary, not including employer's pension contributions;
- Taxable travel and other expenses; and
- Non-taxable payments when employment ends.

Table 1 – Staff paid more than £50,000 (shown in £5,000 bands) for the financial year ended 31 March 2011

2009/10			2010/11	
Number of employees (Restated)			Number of employees	
Schools	Non-schools	Employee pay bands	Schools	Non-schools
111	31	£50,000 to £54,999	102	36
61	22	£55,000 to £59,999	72	20
23	8	£60,000 to £64,999	29	19
8	5	£65,000 to £69,999	12	11
10	3	£70,000 to £74,999	5	10
7	4	£75,000 to £79,999	11	4
3	8	£80,000 to £84,999	5	14
5	4	£85,000 to £89,999	2	2
1	-	£90,000 to £94,999	-	2
3	-	£95,000 to £99,999	-	3
1	-	£100,000 to £104,999	5	-
-	1	£105,000 to £109,999	1	-
-	-	£115,000 to £119,999	-	1
-	3	£120,000 to £124,999	-	1
-	1	£130,000 to £134,999	-	-
-	-	£155,000 to £159,999	-	1
-	-	£160,000 to £164,999	-	1
-	-	£205,000 to £209,999	-	1
-	1	£210,000 to £214,999	-	-

The following tables set out the salaries and wages our senior officers earned during 2009/10 and 2010/11. We have produced this table following LAAP Bulletin 85 and have named the staff who earned more than £150,000 (excluding pension contributions).

Table 2 – Actual salary and benefits paid for the financial year ended 31 March 2010

Post holder information (Post title and name)	Salary (including fees and allowances) £	Compensation for loss of office £	Benefits in kind £	Total wages and benefits but not including pension contributions 2009/10 £	Employer's pension contributions £	Total wages and benefits including pension contributions 2009/10 £
Chief Executive – Note 1						
Alan Jones	97,176.65	113,415.50	46.85	210,639.00	7,849.24	218,488.24
Sheila Wheeler	26,660.66	-	461.90	27,122.56	3,893.32	31,015.88
Corporate Director – Children's Services – Note 2	128,894.28	-	2,813.67	131,707.95	19,046.40	150,754.35
Corporate Director – Community Services	121,704.00	-	-	121,704.00	17,768.76	139,472.76
Corporate Director – Environment	121,847.88	-	82.90	121,930.78	17,768.76	139,699.54
Corporate Director – Resources	121,704.00	-	199.95	121,903.95	17,768.76	139,672.71
Service Director for:						
- Children's Social Care	87,009.00	-	157.85	87,166.85	12,703.30	99,870.15
- Service Partnership	80,295.00	-	150.30	80,445.30	11,723.04	92,168.34
- Adult Social Care	82,297.74	-	115.20	82,412.94	12,015.50	94,428.44
- Community Regeneration	74,397.00	-	-	74,397.00	10,861.92	85,258.92
- Learning Disabilities	70,665.00	-	52.00	70,717.00	10,317.10	81,034.10
- Partnerships	68,799.00	-	62.85	68,861.85	10,044.60	78,906.45
- Highways and Passenger Transport	87,009.00	-	55.50	87,064.50	12,703.30	99,767.80
- Physical Regeneration	80,295.00	-	-	80,295.00	11,723.04	92,018.04
- Environmental Management and Regeneration	78,057.00	-	33.05	78,090.05	11,396.28	89,486.33
- HR and Organisational Development	84,771.00	-	72.85	84,843.85	12,376.56	97,220.41
- Finance and Property	82,533.00	-	62.80	82,595.80	12,049.80	94,645.60
- Client Services	82,533.01	-	50.35	82,583.36	12,049.80	94,633.16
- Transformation	82,533.00	-	36.05	82,569.05	12,049.80	94,618.85
- County Solicitor	81,507.26	-	102.20	81,609.46	11,900.04	93,509.50

Note 1: Alan Jones stepped down as Chief Executive during 2009/10. His annualised salary would have been £161,286. The new Chief Executive is Sheila Wheeler, who took up post on 1st February 2010 and had an annualised salary of £160,000.

Note 2: The Corporate Director for Children's Services acted as deputy Chief Executive for part of 2009/10, until the new Chief Executive took up her post.

Table 3 – Actual salary and benefits paid for the financial year ended 31 March 2011

Post holder information (Post title and name)	Salary (including fees and allowances) £	Compensation for loss of office £	Benefits in kind £	Total wages and benefits but not including pension contributions 2010/11 £	Employer's pension contributions £	Total wages and benefits including pension contributions 2010/11 £
Chief Executive						
Sheila Wheeler	160,000.00	-	26.20	160,026.20	24,159.96	184,186.16
Previous Corporate Director – Children's Services	15,376.58	-	-	15,376.58	2,369.59	17,746.17
Interim Corporate Director – Children's Services - note 3	-	-	-	-	-	-
New Corporate Director – Children's Services - note 3	69,000.00	-	-	69,000.00	10,419.00	79,419.00
Corporate Director – Community Services	121,704.00	-	-	121,704.00	18,377.28	140,081.28
Corporate Director – Environment - note 4	91,278.00	116,168.59	135.15	207,581.74	13,782.96	221,364.70
Corporate Director – Resources - note 5	96,512.58	-	73.05	96,585.63	14,573.38	111,159.01
Interim Business Improvement Director - note 6	-	-	-	-	-	-
Service Director for:						
- Children's Social Care	87,009.00	-	107.75	87,116.75	13,138.32	100,255.07
- Service Partnership	82,533.00	-	102.15	82,635.15	12,462.48	95,097.63
- Adult Social Care	82,295.05	-	70.50	82,365.55	12,426.48	94,792.03
- Community Regeneration	74,397.00	-	-	74,397.00	11,233.92	85,630.92
- Learning Disabilities	70,665.00	-	26.95	70,691.95	10,670.40	81,362.35
- Partnerships	70,665.00	-	-	70,665.00	10,670.40	81,335.40
- Highways and Passenger Transport	87,009.05	-	136.05	87,145.10	13,138.32	100,283.42
- Physical Regeneration	82,533.00	-	-	82,533.00	12,462.48	94,995.48
- Environmental Management and Regeneration	80,295.00	-	-	80,295.00	12,124.44	92,419.44
- Transformation - note 7	79,648.78	75,975.36	31.80	155,655.94	12,026.96	167,682.90
- HR and Organisational Development	84,771.00	-	32.05	84,803.05	12,800.40	97,603.45
- Client Services	82,533.00	-	33.55	82,566.55	12,462.48	95,029.03
- County Solicitor	82,533.00	-	16.75	82,549.75	12,462.48	95,012.23
- Finance and Property	82,533.00	-	9.65	82,542.65	12,462.48	95,005.13

Note 3: The previous Corporate Director of Children's Services ceased employment with SCC on 16/05/10 and the annualised salary would have been £121,704. There was an interim Corporate Director hired from an agency for the period 25/05/10 to 24/10/10 at a cost of £79,304. Following that SCC appointed a permanent Corporate Director starting 27/09/10 with an annualised salary of £135,000.

Note 4: The Corporate Director of Environment ceased employment with SCC on 31/12/2010. The annualised salary would have been £121,704. This post was vacant as at 31/03/2011.

Note 5: The Corporate Director of Resources ceased employment with SCC on 16/01/2011. The annualised salary would have been £121,704. This post was vacant as at 31/03/2011.

Note 6: An Interim Business Improvement Director has been employed by SCC via an agency and started in February 2011. The charge to the authority for 2010/11 was £23,999.48. The annualised charge for this would be £176,000 based on £800 per day for 220 days, plus expenses.

Note 7: The Service Director for Transformation ceased employment with SCC on 18/03/2011. The annualised salary would be £82,533.

Note 20: Termination Benefits

Local Authority

Somerset County Council terminated the contracts of 398 employees in 2010/11, incurring liabilities of £6.6 million. Of this total, £4.314 million was payable to 189 officers from within the Education and Children's Service who were made redundant as part of the authority's rationalisation of the Service. The remaining amount was payable to a number of other employees across the Authority, most notably £0.116 million was payable to the Service Director for Environment in the form of compensation for loss of office.

Teachers

The Authority terminated the contracts of 83 teachers in 2010/11, incurring liabilities of £1.794m. This can be analysed across the following:

Primary	29 teachers
Secondary	33 teachers
Special	2 teachers
Virtual/ Non-school specific	19 teachers

The most significant payments were made to 6 teachers who each received more than £50,000 with the payments to them totalling £0.400m.

Note 21: External Audit Costs

The Audit Commission's areas of work are set by the Code of Audit Practice. Their work includes our Statement of Accounts, performance audits and the audit of grant claims. They also have to inspect our services and processes. A summary of the amounts that we pay for this audit work is shown in the table below.

2009/10 £millions		2010/11 £millions
	Audit fees	
0.271	– Main audit (including the Pension Fund)	0.286
0.017	– Inspections	-
0.012	– Grant claims	0.012
0.300		**0.298**

Note 22: Dedicated Schools Grant

Our spending on schools is primarily funded by the Dedicated Schools Grant (DSG), provided by the Department for Education. The DSG is ringfenced and can only be applied to meet expenditure included in the Schools Budget as defined by the School Finance (England) Regulations 2008. The Schools Budget included elements for a restricted range of services provided on an authority-wide basis and for the Individual Schools Budget (ISB), which is divided into a budget share for each school.

Details of how we spent the DSG for 2010/11 are as follows:

	Central spending £millions	Individual Schools Budget (Restated) £millions	Total £millions
Final Dedicated Schools Grant for 2010/11	-39.822	-231.177	-270.999
Brought Forward from 2009/10	0.653	-	0.653
Carry Forward to 2011/12 agreed in advance	-	-	-
Agreed Budgeted Distribution in 2010/11	-39.169	-231.177	-270.346
Actual Central Expenditure	37.963	-	37.963
Actual ISB Deployed to schools	-	231.177	231.177
Local Authority contribution for 2010/11	-	-	-
Carry Forward to 2011/12	**-1.206**	-	**-1.206**

Note 23: Grant Income

The Authority credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2010/11:

2009/10 (Restated) £millions		2010/11 £millions
	Credited to Taxation and Non Specific Grant Income	
-19.539	- Revenue Support Grant	-13.935
-40.392	- Area Based Grant	-36.269
-11.350	- Standards Fund Capital Grant	-12.181
-2.167	- Surestart Capital Grant	-5.755
-0.871	- National Heritage Lottery Fund	-2.220
-	- Department of Health	-0.952
-0.136	- Department for Transport Capital Grant	-4.416
-3.585	- Other capital grants	-4.769
-	- Capital contribution re. donated asset (Somerset Bridge Primary School)	-5.800
-4.072	- Other capital contributions	-4.670
-82.112	**Total**	**-90.967**
	Credited to Services	
-268.946	- Dedicated Schools Grant	-270.999
-47.697	- Standards Fund	-33.518
-15.709	- Standards Grant	-15.848
-	- Specific grants to schools	-2.492
-10.495	- Skills Funding Agency (formerly Learning and Skills Council)	-6.647
-0.995	- Youth Justice	-0.981
-12.509	- Sure Start, Early Years and Childcare Grant	-14.583
-0.605	- Local Area Agreement Grant	-0.969
-	- Family Intervention Projects	-0.972
-	- Diploma Formula Grant	-1.033
-6.067	- Children's services – other grants	-3.518
-7.556	- Young People's Learning Agency Post-16 Funding SCC Schools	-10.154
-	- Young People's Learning Agency Post-16 Funding External Providers	-19.297
-0.072	- Access and Systems Capacity Grant	-
-	- Social Care Reform Grant	-0.599
-	- Rural Bus Grant	-0.315
-	- Local Action for Rural Communities	-0.721
-	- Department for Transport Winter Funding 2009/10	-1.976
-	- Environment - other grants	-2.427
-0.432	- Carers' Grant	-
-0.239	- Supporting People	-
-3.168	- Adult services – other grants	-1.199
-0.314	- Road Safety Grant	-
-1.129	- Other services grants	-0.544
-375.933	**Total**	**-388.792**

Note 24: Related Parties

Somerset County Council is required to disclose material transactions with related parties; these are bodies or individuals that have the potential to control or significantly influence the Council or to be controlled or significantly influenced by the Council. Disclosure of these transactions allows readers to assess the extent to which the Council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council.

Central Government
Central government has effective control over the general operations of the Council. It is responsible for providing the statutory framework, within which the Council operates, it provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties. The grants received from Central Government are disclosed in Note 23.

Members
Elected Members of the Council have direct control over the Council's financial and operating policies. The total of Members' allowances paid in 2010/11 is shown in Note 18. The Members' Code of Conduct requires Members to declare interests in related parties in the Register of Members' Interests. The Register is available on the Council's website and is open to public inspection at County Hall during office hours. Members were also asked to declare separately transactions with the Authority. No material transactions between the Council and businesses in which members have a controlling interest have been identified.

A number of members are also members of other local public bodies, including district, parish and town councils, police and fire and rescue authorities and NHS trusts. Transactions took place between the Council and these organisations in 2010/11. Further details of these transactions are outlined below.

Officers
Officers of the Authority are bound by the rules and procedures of the Council's Constitution. Officers are required to register any personal interests which may affect their judgement as an employee of the Council. Senior officers were also required to declare transactions with the Authority. No transactions have been identified.

Other Public Bodies
During 2010/11 the Council received income from and made payments to other local authorities, NHS bodies and other public sector bodies, which are all subject to common control by Central Government. The majority of these transactions were with other public sector bodies in the county, in particular NHS Trusts and other local authorities, including district, town and parish councils. There were also transactions with local authorities outside the county, primarily for adults' and children's social care payments.

In 2010/11 the amount received from other local authorities was £22.239 million and £10.203 million was paid to other local authorities. £22.599 million was received from NHS bodies and £5.397 million paid to NHS bodies. The Council also paid £0.700 million to and received £0.719 million from other public sector bodies, including Central Government departments.

Balances outstanding are disclosed in the debtors and creditors balances in Notes 34 and 35.

Other Related Parties
The PLUSS Organisation, a company limited by guarantee, is an associate of the County Council, in which the Council has a 25% share of voting rights. In 2010/11 the Council paid £0.301 million to PLUSS.

Southwest One provides a number of services to the Authority through a contract. These services include finance and corporate support, facilities management and technology services. In 2010/11 expenditure on services from Southwest One, including contract payments, was £33.876 million and income received from Southwest One, including payments for salaries of staff seconded from the Council to Southwest One, was £24.314 million.

Note 25: Property, Plant and Equipment

Movements in 2010/11	Other Land & Buildings £millions	Vehicles, Plant & Equipment £millions	Infrastructure Assets £millions	Community Assets £millions	Surplus Assets £millions	Assets Under Construction £millions	Total £millions	PFI assets included in PPE £millions
Cost or valuation								
At 1 April 2010	861.892	61.577	397.141	3.183	9.262	18.509	1,351.564	-
Additions	17.648	8.015	26.814	0.910	-	9.826	63.213	-
Disposals	-55.279	-7.164	-0.016	-1.912	-	-	-64.371	-
Reclassifications	5.926	-0.068	0.150	-	0.334	-18.341	-11.999	-
Revaluation Increase/(decrease):								
- to Revaluation Reserve	7.472	-	-	-	0.009	-	7.481	-
- to Surplus/Deficit on the provision of service	-1.157	-	-	-	-0.089	-	-1.246	-
At 31 March 2011	836.502	62.360	424.089	2.181	9.516	9.994	1,344.642	-
Depreciation and impairments								
At 1 April 2010	-21.923	-18.543	-135.182	-2.123	-	-	-177.771	-
Charge for 2010/11	-19.731	-10.212	-16.499	-0.176	-0.185	-	-46.803	-
Disposals	1.703	5.931	0.016	1.607	-	-	9.257	-
Reclassifications	-0.044	0.059	-	-	-0.005	-0.060	-0.050	-
Revaluations	0.347	-	-	-	0.013	-	0.360	-
Impairment (Losses)/reversals:								
- to Revaluation Reserve	-5.513	-	-	-	-	-	-5.513	-
- to Surplus/Deficit on the provision of service	-13.055	-	-	0.029	-	-0.036	-13.062	-
At 31 March 2011	-58.216	-22.765	-151.665	-0.663	-0.177	-0.096	-233.582	-
Balance sheet amount at 1 April 2010	**839.969**	**43.034**	**261.959**	**1.060**	**9.262**	**18.509**	**1,173.793**	**-**
Balance sheet amount at 31 March 2011	**778.286**	**39.595**	**272.424**	**1.518**	**9.339**	**9.898**	**1,111.060**	**-**
Nature of asset holding at 31 March 2011								
Owned	713.202	39.595	272.424	1.518	9.339	9.898	1,045.976	-
Finance lease	65.084	-	-	-	-	-	65.084	-
	778.286	**39.595**	**272.424**	**1.518**	**9.339**	**9.898**	**1,111.060**	**-**

Comparative movements in 2009/10	Other Land & Buildings	Vehicles, Plant & Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets Under Construction	Total	PFI assets included in PPE
	£millions	£millions	£millions	£millions	£millions	£millions	£millions	£millions
Cost or valuation								
At 1 April 2009	858.374	42.524	368.292	3.035	9.182	38.089	1,319.496	-
Additions	19.290	6.872	28.798	0.168	0.011	9.734	64.873	-
Disposals	-29.247	-12.654	-0.011	-	-	-	-41.912	-
Reclassifications	4.481	24.746	0.062	-0.020	-	-29.269	-	-
Revaluation Increase/(decrease):								
- to Revaluation Reserve	17.367	-	-	-	0.424	-	17.791	-
- to Surplus/Deficit on the provision of service	-0.719	-	-	-	-	-	-0.719	-
At 31 March 2010	869.546	61.488	397.141	3.183	9.617	18.554	1,359.529	-
Depreciation and impairments								
At 1 April 2009	-11.480	-21.941	-119.669	-1.910	-0.279	-	-155.279	-
Charge for 2009/10	-18.981	-8.916	-15.517	-0.213	-0.076	-	-43.703	-
Disposals	1.379	12.403	0.004	-	-	-	13.786	-
Reclassifications	-	-	-	-	-	-	-	-
Revaluations	5.760	-	-	-	-	-	5.760	-
Impairment Losses/(reversals):								
- to Revaluation Reserve	-1.200	-	-	-	-	-	-1.200	-
- to Surplus/Deficit on the provision of service	-5.055	-	-	-	-	-0.045	-5.100	-
At 31 March 2010	-29.577	-18.454	-135.182	-2.123	-0.355	-0.045	-185.736	-
Balance sheet amount at 1 April 2009	**846.894**	**20.583**	**248.623**	**1.125**	**8.903**	**38.089**	**1,164.217**	**-**
Balance sheet amount at 31 March 2010	**839.969**	**43.034**	**261.959**	**1.060**	**9.262**	**18.509**	**1,173.793**	**-**
Nature of asset holding at 31 March 2010								
Owned	775.649	43.034	261.959	1.060	9.262	18.509	1,109.473	-
Finance lease	64.320	-	-	-	-	-	64.320	-
	839.969	**43.034**	**261.959**	**1.060**	**9.262**	**18.509**	**1,173.793**	**-**

Depreciation

The following useful lives and depreciation rates have been used in the calculation of depreciation:

- Other Land and Buildings – 20 to 50 years
- Mobile Classrooms – 40 years
- Vehicles – 5 to 15 years
- Other Plant, Furniture & Equipment –10 years
- IT Equipment – 5 years
- Infrastructure – 25 years
- Community assets – 10 years

Capital Commitments

At 31 March 2011, the Authority anticipated investing £39.4m (£45.5m at 31 March 2010) in the construction or enhancement of Property, Plant, Equipment and Infrastructure during 2011/12 and future years. Some of this will be for schemes that have not yet started. Within this figure, however, we have major contractual commitments for a number of schemes that are already in progress. These include:

- £0.764m for the purchase of land for a new school
- £1.515m for the completion of building and fitting out contracts at the Museum of Somerset
- £0.900m for the balance of the contract to link the A38 with Bridge Street in Taunton
- £0.500m for the balance of the contract to design and supervise a major road development between Station Approach and a site to the north of the Taunton and Bridgwater Canal.

Similar commitments listed at 31 March 2010 were £14.546m.

In addition to the individual items above we have a contract for the procurement of highways major repairs that will result in an estimated capital expenditure of between £18m and £20m in 2011/12 (£20-22m in 2010/11). These payments will relate to new projects in 2011/12 and are in addition to the specific project information shown above.

Revaluations

The Authority carries out a rolling programme that ensures that all property required to be measured at fair value is revalued at least every five years. All valuations were carried out internally. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors (RICS). We do not revalue our vehicles, plant, community assets, infrastructure, furniture and equipment or assets under construction; depreciated historic cost is used as a proxy for fair value. The significant assumptions applied in estimating the fair values are:

- Specialist properties (such as Schools) have been valued using the Depreciated Replacement Cost (DRC) method;
- Other non-specialist properties (including those classified as surplus to requirements) have been valued on the basis of Existing Use Value (EUV), in accordance with UKPS 1.3 of the RICS Valuation Standards;
- Assets classified as ‘Held for Sale’ are initially valued using the fair value measure appropriate to the class in which they were held when the Assets Held for Sale criteria were satisfied. This value is then compared to the fair value of the asset less costs to sell (based on market value net of the incremental costs directly attributable to the disposal of the asset). The assets valuation is then reduced (where applicable) to the lower of these two values.

	Other Land & Buildings	Vehicles, Plant & Equipment	Infrastructure Assets	Community Assets	Surplus Assets	PPE Under Construction	Total
	£millions	£millions	£millions	£millions	£millions	£millions	£millions
Carried at historical cost	5.965	39.595	272.424	1.518	-	9.898	**329.400**
Valued at fair value as at:							
31 March 2011	38.755	-	-	-	0.446	-	**39.201**
31 March 2010	76.765	-	-	-	5.402	-	**82.167**
31 March 2009	625.138	-	-	-	1.729	-	**626.867**
31 March 2008	26.535	-	-	-	1.645	-	**28.180**
31 March 2007	-	-	-	-	-	-	**-**
31 March 2006	5.128	-	-	-	0.117	-	**5.245**
Total cost or valuation	**778.286**	**39.595**	**272.424**	**1.518**	**9.339**	**9.898**	**1111.060**

Note 26: Intangible Assets

Somerset County Council classifies its software licences, where material, as intangible assets, to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of Property, Plant and Equipment. During 2010/11, the only intangible asset reported in our accounts related to a software licence for our financial accounting system SAP.

All software is given a finite useful life, based on assessments of the period that the software is expected to be of use to the Authority.

The carrying amount of intangible assets is amortised on a straight-line basis. The amortisation of £0.072 million charged to revenue in 2010/11 was charged to the SAP Transformation cost centre and then absorbed as an overhead across all the service headings in the cost of services. It is not possible to quantify exactly how much of the amortisation is attributable to each service heading.

The movement on intangible asset balances during the year is as follows.

2008/09 £millions	2009/10 £millions		2010/11 £millions
		Balance at start of year:	
1.780	1.780	– Gross carrying amount	1.780
-	-0.071	– Accumulated amortisation	-0.142
1.780	**1.709**	**Net carrying amount at start of year**	**1.638**
		Additions:	
-	-	– Purchases	-
-0.071	-0.071	Amortisation for the period	-0.072
-	-	Other changes	-
1.709	**1.638**	**Net carrying amount at end of year**	**1.566**

There is only one item of capitalised software that is individually material to the financial statements:

	Carrying amount at 31 March 2010 £millions	Carrying amount at 31 March 2011 £millions	Remaining Amortisation Period at 31 March 2011
SAP system licence (Integrated finance and payroll system)	1.638	1.566	22 years

Note 27: Impairment Losses

During 2010/11, the Authority has recognised an impairment loss of £18.575 million to its Property, Plant and Equipment non-current assets. Within this impairment loss, £5.495 million related to capital expenditure that was required to make good a number of our properties that were written-off to revenue in the year. The remaining impairment loss related to the in-year fall in value to a number of our properties.

Amongst the properties that fell in value during 2010/11, £3.672 million related to the impairment of Dillington House and the new Conference Centre built at Dillington. This impairment loss was a result of the decline in demand for its services due to the current economic climate. The recoverable amount of Dillington House and Conference Centre and other impaired assets have been reduced to their 'fair value in use' and the impairment loss charged to the Revaluation Reserve and then the relevant service line in the Comprehensive Income and Expenditure Statement.

'Value in use' was determined by assessing how much the Authority would have to pay to acquire the service potential of the asset that is actually now capable of being used. This has been provided by our Valuers.

These disclosures are consolidated in Note 25 that reconciles the movements over the year in the Property, Plant and Equipment balances.

Note 28: Assets Held For Sale

Current 2009/10 £millions	Non current 2009/10 £millions		Current 2010/11 £millions	Non current 2010/11 £millions
-	**-**	**Balance outstanding at start of year**	**-**	**-**
		Assets newly classified as held for sale:		
-	-	- Property, plant and equipment	12.049	-
-	-	Revaluation losses	-	-
-	-	Revaluation gains	-	-
-	-	Impairment losses	-2.936	-
		Assets declassified as held for sale:		
-	-	- Property, plant and equipment	-	-
-	-	Assets sold	-1.233	-
-	-	Transfers from non-current to current	-	-
-	-	Other movements	-	-
-	**-**	**Balance outstanding at year end**	**7.880**	**-**

Note 29: Leases

Authority as Lessee

Finance Leases
The Council has acquired a number of libraries, the Museum of Somerset and Dillington House (our residential centre for professional development, adult education and the arts) under finance leases.

The assets acquired under these leases are carried as Property, Plant and Equipment in the Balance Sheet at the following net amounts:

	31 March 2009 £millions	31 March 2010 £millions	31 March 2011 £millions
Other Land and Buildings	63.914	64.320	65.084
Vehicles, Plant and Equipment	-	-	-
	63.914	**64.320**	**65.084**

The Authority is committed to making minimum payments under these leases comprising settlement of the long-term liability for the interest in the property acquired by the Authority and finance costs that will be payable by the Authority in future years while the liability remains outstanding. The minimum lease payments are made up of the following amounts:

2009/10 £millions		2010/11 £millions
	Finance lease liabilities (net present value of minimum lease payments):	
0.003	- Current	0.004
0.425	- Non Current	0.421
0.509	Finance costs payable in future years	0.490
0.937	Minimum lease payments	**0.915**

The minimum lease payments will be payable over the following periods:

	Minimum Lease Payments		Finance Lease Liabilities	
	31 March 2010 £millions	31 March 2011 £millions	31 March 2010 £millions	31 March 2011 £millions
Not later than one year	0.022	0.022	0.003	0.004
Later than one year and not later than five years	0.087	0.087	0.015	0.015
Later than five years	0.828	0.806	0.410	0.406
	0.937	**0.915**	**0.428**	**0.425**

The minimum lease payments do not include rents that are reliant on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2010/11, no contingent rents were payable by the Authority (nil in 2009/10).

The Authority has sub-let part of Taunton library (held under a finance lease) as an operating lease. At 31 March 2011, the minimum lease payments expected to be received under non-cancellable sub-leases was £0.230m (£0.245m at 31 March 2010).

Operating Leases

The future minimum lease payments due under non-cancellable leases in future years are:

	31 March 2010		31 March 2011	
Operating Leases	**Land & Buildings £millions**	**Vehicles & Equipment £millions**	**Land & Buildings £millions**	**Vehicles & Equipment £millions**
Not later than one year	1.162	0.046	1.110	0.052
Later than one year and not later than five years	2.994	0.045	2.572	0.069
Later than five years	3.118	-	3.051	-
	7.274	**0.091**	**6.733**	**0.121**

The Authority has sub-let some of the assets acquired under operating leases. At 31 March 2011, the minimum lease payments expected to be received under non-cancellable sub-leases was £0.337m (£0.384m at 31 March 2010).

The expenditure charged to the Comprehensive Income and Expenditure Statement during the year in relation to these leases was:

	31 March 2010 £millions	**31 March 2011 £millions**
Minimum Lease Payments	0.090	0.100
Contingent rents	-	-
Less - Sub-lease payments receivable	-0.075	-0.048
	0.015	**0.052**

Authority as Lessor

Finance Leases

The Authority has leased out a number of its elderly care home properties to Somerset Care Ltd on a finance lease with a remaining term of 89 years. The Authority has also leased out (for a peppercorn rent) a section of Shire Hall to the Secretary of State for the Environment on a finance lease with a remaining term of 105 years. We did not acquire any of these assets specifically for the purpose of letting under finance leases.

The Authority has a gross investment in the lease, made up of the minimum lease payments expected to be received over the remaining term and the residual value anticipated for the property when the lease comes to an end. The minimum lease payments comprise settlement of the long-term debtor for the interest in the properties acquired by the lessee and financing income that will be earned by the Authority in future years whilst the debtor remains outstanding. The gross investment is made up of the following amounts:

	31 March 2010 £millions	31 March 2011 £millions
Finance lease debtor (net present value of minimum lease payments):		
- Current	0.016	0.017
- Non Current	22.824	22.807
Unearned Finance Income	76.439	75.364
Unguaranteed residual value of property	-	-
Gross investment in the lease	**99.279**	**98.188**

The gross investment in the lease and the minimum lease payments will be received over the following periods:

	Gross Investment in the Lease		Minimum Lease Payments	
	31 March 2010 £millions	31 March 2011 £millions	31 March 2010 £millions	31 March 2011 £millions
Not later than one year	1.091	1.091	1.091	1.091
Later than one year and not later than five years	4.364	4.364	4.364	4.364
Later than five years	93.824	92.733	93.824	92.733
	99.279	**98.188**	**99.279**	**98.188**

During 2010/11, we reviewed our arrangement with Somerset Care Ltd and are confident that the lease payments will continue to be received when they fall due. We have therefore not set aside an allowance for uncollectable amounts in our accounts for 2010/11. This will be reviewed again in 2011/12, and if necessary an allowance for uncollectable amounts will be set aside.

The minimum lease payments do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2010/11, no contingent rents were receivable by the Authority (£nil for 2009/10).

Operating Leases

The Authority leases out property under operating leases for the following purposes:

- For the provision of community services, such as sports facilities, tourism services and community centres;
- For economic development purposes to provide suitable affordable accommodation for local businesses.

The future minimum lease payments receivable under non-cancellable leases in future years are:

Operating Leases	31 March 2010 £millions	31 March 2011 £millions
Not later than one year	0.329	0.229
Later than one year and not later than five years	1.054	0.575
Later than five years	1.290	1.093
	2.673	**1.897**

The minimum lease payments do not include rents that are reliant on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2010/ 11, no contingent rents were receivable by the Authority (nothing payable in 2009/10).

Note 30: Private Finance Initiatives (PFI) and Similar Contracts

Building Schools for the Future (BSF)

Building Schools for the Future (BSF) was a national Government programme to rebuild or renew every secondary school in England over the next 10 – 15 years.

Bridgwater is leading the way as the first town in Somerset to develop a BSF programme, along with 1,000 other schools around the country.

Negotiations have been completed between Somerset County Council and BAM PPP to rebuild Chilton Trinity, Elmwood and Robert Blake schools. Signatures for the contract were exchanged on 23 September 2010. BAM started on site on 27 September 2010 with a view to completing in October 2012.

Payments due to be made under the PFI contract for BSF include a service element for the schools' premises costs and capital financing payments that relate to the reduction of the liability and an amount for interest. The figures shown in the table below do not include any adjustments for inflation.

	Repayments of Liability £	Interest Charges £	Service Charges £	Total Payments £
Within 1 year	163,014	-	2,026,950	**2,189,964**
Within 2 - 5 years	5,810,049	5,870,567	6,080,850	**17,761,466**
Within 6 - 10 years	5,253,040	18,394,711	10,134,750	**33,782,501**
Within 11 - 15 years	7,581,708	16,066,043	10,134,750	**33,782,501**
Within 16 - 20 years	10,942,673	12,705,078	10,134,750	**33,782,501**
Within 21 - 25 years	15,793,554	7,854,197	10,134,750	**33,782,501**
Within 26 - 30 years	10,690,605	1,524,986	6,080,850	**18,296,441**
	56,234,643	**62,415,582**	**54,727,650**	**173,377,875**

Payments for the scheme will begin in 2011/2012 when the assets are brought into use. The assets will then appear on our Balance Sheet and we will also show our long term liability. Set against this is a grant of £171 million that will be received from Central Government, the majority of the balance will be found from schools' funds.

Note 31: Financial Instruments

Fair Values of Assets and Liabilities

Financial liabilities, financial assets represented by loans and receivables and long-term debtors and creditors are carried in the Balance Sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions:

- Prevailing swap rates for Lender Option Borrower Options (LOBOs) and Public Work Loans Board (PWLB) repayment rate at 31 March 2011;
- No early repayment or impairment is recognised;
- Where an instrument will mature in the next 12 months, the carrying amount is assumed to approximate to fair value; and
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

The fair values calculated are as follows:

Financial Liabilities	31 March 2010		31 March 2011	
	Carrying amount	Fair Value	Carrying amount	Fair Value
	£millions	£millions	£millions	£millions
Financial liabilities at amortised cost	-708.628	-708.628	-541.461	-541.461
PWLB	-173.250	-181.318	-173.250	-186.772
Other Loans	-180.500	-204.848	-180.500	-205.147
PFI Deferred Liability	-	-	-	-
	-1062.378	**-1094.794**	**-895.211**	**-933.380**

The fair value of the liabilities is higher than the carrying amount because the Authority's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the prevailing rates at the Balance Sheet date. This shows a notional future loss (based on economic conditions at 31 March 2011) arising from a commitment to pay interest to lenders above current market rates.

Financial Assets	31 March 2010		31 March 2011	
	Carrying amount	Fair Value	Carrying amount	Fair Value
	£millions	£millions	£millions	£millions
Cash and liquid deposits	36.840	36.840	50.632	50.632
Loans and receivables	189.681	189.681	202.448	202.448
Long-term investments	11.968	11.968	8.190	8.190
	238.489	**238.489**	**261.270**	**261.270**

As our long term investments (Iceland) have been adjusted in our accounts to reflect their discounted value, the fair value of the assets is the same as the carrying value. Had the fair value of the assets been lower than the carrying amount because the Authority's portfolio of investments included a number of fixed rate loans where the interest rate receivable was lower than the rates available for similar loans at the Balance Sheet date, this would have shown a notional future loss (based on economic conditions at 31 March 2011) attributable to the commitment to receive interest below current market rates. However, this is not the case.

We have no financial assets available for sale.

Short term debtors and creditors are carried at cost as this is a fair approximation of their value.

Short-term and long-term investments

These investments include money invested in an account known as the "Comfund", together with money from partner organisations. The aim is to gain the best income from the money jointly invested. We also show the money we receive to invest for other organisations as temporary loans.

The total value of our long-term and short-term investments is shown in the table below.

2008/09 £millions	2009/10 £millions		2010/11 £millions
		Investments through the Comfund for:	
32.900	-	– Avon and Somerset Police Authority	-
2.590	-	– the Pension Fund	-
3.900	3.900	– South West Regional Assembly	3.900
2.230	2.250	– Exmoor National Park	3.200
0.365	0.365	– Police Community Trust	0.365
0.300	0.315	– Society of County Treasurers	0.310
0.225	0.025	– Falcon Housing Trust	0.175
0.600	0.050	– Richard Huish College	0.250
0.200	0.250	– Learning South West	0.250
0.040	0.040	– Wyvern Club	0.040
-	0.490	– King Alfred School	0.295
43.350	7.685		8.785
94.785	92.315	Our own short-term investment in the Comfund	101.215
138.135	100.000	Total temporary Comfund investment	110.000
10.006	-	Other temporary investments	3.657
3.322	1.405	Interest due on temporary investments	0.851
151.463	**101.405**	**Total short-term investments**	**114.508**
23.099	11.967	Our own long-term investment in the Comfund	8.189
0.001	0.001	Investment in South West One	0.001
0.248	-	Interest due on long-term Comfund investments	-
23.348	**11.968**	**Total long-term investments**	**8.190**

We have shares in our partner company Southwest One Ltd. We hold 1,175 shares at their nominal value of £1 per share. These are not marketable shares, so we record them at face value.

Long-term debtors

2008/09 £millions	2009/10 £millions		2010/11 £millions
		Loans to:	
0.616	0.587	Other authorities (mostly for housing)	0.556
0.116	0.110	Other organisations	0.098
0.209	0.175	Capital spending for probation to be funded in future years	0.141
2.830	2.830	Loan to ASPA	1.830
0.103	0.162	Officers' car loans and leases	0.169
22.840	22.824	Leasing arrangements with Somerset Care Ltd	22.807
26.714	**26.688**		**25.601**

Short-term borrowing

2008/09 £millions	2009/10 £millions		2010/11 £millions
-43.350	-7.685	Other organisations investing in the Comfund	-8.785
-1.088	-0.403	Interest payable on temporary borrowing	-0.069
-44.438	**-8.088**		**-8.854**

Long-term borrowing

2008/09 £millions	2009/10 £millions		2010/11 £millions
		Loans due to be repaid:	
-	-	within one to two years	-15.000
-15.000	-24.200	within two to five years	-9.200
-9.200	-	within five to 10 years	-
-329.550	-329.550	after more than 10 years	-329.550
-3.872	-4.054	Interest due on long-term borrowing	-4.136
-357.622	**-357.804**		**-357.886**

Note 32: Nature and Extent of Risks Arising from Financial Instruments

The Authority's activities expose it to a variety of financial risks. The main risks to the Council's treasury activities are:

- Credit and Counterparty Risk (security of investments);
- Liquidity Risk / Refinancing Risk (inadequate cash resources / impact of debt maturing in future years);
- Market or Interest Rate Risk (fluctuations in interest rate levels);
- Inflation Risk (exposure to inflation);
- Legal and Regulatory Risk.

The Authority's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. Risk management is carried out by the treasury management team, under policies approved by County Council. The annual Treasury Management Strategy Statement outlines the proposed Treasury Management strategy, policies, and activities for the coming year. It includes an Annual Investment Strategy that is required by the Local Authority Act 2003, as prescribed by guidance from the Department of Communities and Local Government (DCLG). The Treasury Management Practices (TMPs) is a comprehensive document that sets out the nature of risks inherent to treasury management, and schedules provide details of how those risks are actively managed. They form a living document that is subject to ongoing review and updating.

Credit and Counterparty Risk

Credit and counter-party risk is the risk of failure by a third party to meet its contractual obligations under an investment, loan or other commitment, especially one due to deterioration in its creditworthiness, which causes the Council an unexpected burden on its capital or revenue resources.

This risk is minimised through the Annual Investment Strategy, and more specifically by the Somerset County Council Lending Counterparty Criteria, which dictates the criteria with which potential counterparties' creditworthiness will be judged. The criteria requires that specific account is taken of counterparty ratings by the 3 major ratings agency, Fitch, S&P and Moody's, with the lowest rating of the three being used. The criteria also impose limits to be invested with a given financial institution based on ratings, group structure, duration, and country of domicile.

Constant Net Asset Value (CNAV) Money Market Funds (MMFs) are used, and have their own criteria, namely ratings, limits of the Council's funds as a nominal or percentage of the overall fund, and an overall limit on MMFs.

As had previously been the case with the Council, and is now a requirement of the revised CLG guidance, the Council uses a range of indicators to assess counterparties' creditworthiness, not just credit ratings. Among other indicators to be taken into account will be:

- Credit Default Swaps and Government Bond Spreads;
- GDP, and Net Debt as a percentage of GDP for sovereign countries;
- Likelihood and strength of parental support;
- Government Guarantees and Support, including ability to support;
- Share Price;
- Market information on corporate developments and market sentiment towards the counterparties and sovereigns.

The Somerset County Council Lending Counterparty Criteria is proposed and approved annually to incorporate any changes in financial institutions or developments in the wider political, economic, or legal environment. The criteria in force during 2010/11 can be found under the reports for the County Council meeting 17 February 2010, agenda item 11, Appendix B. This can be accessed via the hyperlink below.

http://www1.somerset.gov.uk/council/board1/2010%20February%2017%20Item%2011%20Treasury%20Management%20Strategy%20Statement%20Appendix%20B.pdf

The Authority's maximum exposure to credit risk in relation to its investments in banks and building societies is assessed generally. The risk of any institution failing to make interest payments or repay the principal sum will obviously be specific to each individual institution, and will be subjectively assessed by various external credit experts. It is therefore deemed appropriate to take the opinion of the same credit rating agencies for likelihood of default, as when making investments.

The following analysis summarises the Authority's potential maximum exposure to credit risk on other financial assets, based on reports of transition and default studies by the three major ratings agencies. In line with guidance on making investments, it is deemed appropriate to take the lowest rating of the three. The values are calculated by multiplying the likelihood of default by the value of deposits at risk. The table below shows the values calculated using each of the ratings agencies reports. The worst case scenario has been used.

Risk rating provider	Risk rating	Amount outstanding £millions	Potential at risk £millions
Fitch	**Money-market funds**		
	AAA	1.170	-
	UK banks		
	AA	124.000	0.050
	UK building societies		
	AA	20.000	0.008
		145.170	**0.058**
S&P	**Money-market funds**		
	AAA	1.170	-
	UK banks		
	AA	50.000	0.010
	A	74.000	0.059
	UK building societies		
	A	20.000	0.016
	BBB		
		145.170	**0.085**
Moody's	**Money-market funds**		
	AAA	1.170	-
	UK banks		
	Aa3	115.000	0.060
	A1	9.000	0.011
	UK building societies		
	Aa3	20.000	0.010
		145.170	**0.081**
	Investment and highest risk	**145.170**	**0.085**

Liquidity / Refinancing Risk

The Authority has a comprehensive cash flow management system that seeks to ensure that cash is available as needed. The Council's cash flow investments are made with reference to the outlook for the UK Bank Rate and Money Market rates. Short-term deposits are made with suitable counterparties, and it has become more frequent under current market conditions that Call Accounts and CNAV MMFs have been used. MMFs offer an alternative high security, high liquidity investment into an extremely diversified portfolio. Many Call and MMF accounts offer more competitive rates than short-term time deposits up to 6-months, as well as instant access.

If unexpected cash movements happen, the Authority has ready access to borrowings from the Money Markets and the Public Works Loans Board. There is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

The Authority sets limits on the proportion of its fixed rate borrowing due to mature during specified periods. The strategy is to ensure where possible, that the maturity profile of loans does not mean that the Authority will be bound to replenish a significant proportion of its borrowings at a time of unfavourable interest rates (Refinancing risk). The Council will ensure that its borrowing, private financing and partnership arrangements are negotiated, structured and documented. Also ensuring the maturity profile of the monies so raised are managed with a view to obtaining offer terms for renewal or refinancing, if required, which are competitive and as favourable to the organisation as can reasonably be achieved in the light of market conditions prevailing at the time.

It will actively manage its relationships with its counterparties in these transactions in such a manner as to secure this objective, and will avoid over reliance on any one source of funding if this might jeopardise achievement of the above. This can be managed through a combination of careful planning of new loans taken out and (where it is economic to do so) restructuring debt or making early repayments. The market loan portfolio can limit the control of early repayments, and a strategy is in place to minimise the impact should counterparties exercise their right to increase the interest rate charged. The maturity analysis of financial liabilities is shown in Note 31.

Market Risk

The Council will seek to ensure that its stated treasury management policies and objectives will not be compromised by adverse market fluctuations in the value of the principal sums it invests, and will accordingly seek to protect itself from the effects of such fluctuations. The Council holds no Government or Supranational bonds, or other tradable instruments whose value may be subject to fluctuations in market price.

Interest Rate Risk

The Authority is exposed to risk in terms of its exposure to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Authority. For instance, a rise in interest rates would have the following effects:

- Borrowings at variable rates – the interest expense charged to the Surplus or Deficit on the Provision of Services will rise;
- Borrowings at fixed rates – the fair value of the liabilities borrowings will fall;
- Investments at variable rates – the interest income credited to the Surplus or Deficit on the Provision of Services will rise; and
- Investments at fixed rates – the fair value of the assets will fall.

Borrowings are not carried at fair value, so nominal gains and losses on fixed rate borrowings would not impact on the Surplus of Deficit on the Provision of Services or Other Comprehensive Income and Expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services and affect the General Fund Balance. Any movements in the fair value of fixed rate investments that have a quoted market price would be reflected in Other Comprehensive Income and Expenditure.

The Authority has a number of strategies at its disposal for managing interest rate risk. A proportion of its borrowings could have been taken in variable rate loans during 2010-11, but after amendments to capital financing during the year, no new borrowing was necessary. All borrowing remains at fixed rates. During periods of falling or continued low interest rates, and where economic circumstances make it favourable, fixed rate loans can be repaid early to limit exposure to losses.

As far as investments were concerned, the Council sought to optimise returns commensurate with its objectives of security and liquidity. With UK Bank Rate maintained at 0.5% through the year, short term Money Market rates remained at very low levels, having a significant impact on investment income. To mitigate the effects of this, identified core balances and reserves have been lent for longer periods. The aim was to create a portfolio of fixed rate deposits with a rolling maturity providing sufficient liquidity, whilst enabling advantage to be taken of the extra yield offered over longer periods. The rolling nature of maturities meant that if there were a sudden spike in interest rates, a sufficient proportion of the portfolio would be able to be reinvested as higher rates became available.

Some Call Accounts and Money Market Funds (MMFs) offered yields in excess of those on offer for time deposits up to 6-months, which meant that it was beneficial to use these facilities. This was beneficial not just for liquidity and yield, but in mitigating counterparty and interest rate risk.

Legal and Regulatory Risk

The Council ensures that all of its treasury management activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities. In framing its credit and counterparty policy, it will ensure that there is evidence of counterparties powers, authority and compliance in respect of the transactions they may effect with the organisation, particularly with regard to duty of care and fees charged.

The Council recognises that future legislative or regulatory changes may impact on its treasury management activities and, so far as it is reasonably able to do so, will seek to minimise the risk of these impacting adversely on the organisation.

Foreign Exchange Risk

The Authority has no financial assets and liabilities denominated in foreign currencies other than ad hoc invoices in Euros. Therefore there is little exposure to loss arising from exchange rates. To mitigate the minimal risk in movements in the Euro exchange rate, the Council maintains an interest bearing Euro account.

Note 33: Inventories

	Consumable Stores			Client services Work In Progress			Total	Total	Total
	2008/09 £millions	2009/10 £millions	2010/11 £millions	2008/09 £millions	2009/10 £millions	2010/11 £millions	2008/09 £millions	2009/10 £millions	2010/11 £millions
Balance outstanding at start of year	**0.309**	**0.460**	**0.455**	**0.082**	**0.162**	**0.062**	**0.391**	**0.622**	**0.517**
Purchases	1.060	1.303	1.740	0.160	0.062	0.068	**1.220**	**1.365**	**1.808**
Recognised as an expense in the year	-0.909	-1.308	-1.804	-0.080	-0.162	-0.062	**-0.989**	**-1.470**	**-1.866**
Written off balances	-	-	-	-	-	-	**-**	**-**	**-**
Reversals of write-offs in previous years	-	-	-	-	-	-	**-**	**-**	**-**
Balance outstanding at year-end	**0.460**	**0.455**	**0.391**	**0.162**	**0.062**	**0.068**	**0.622**	**0.517**	**0.459**

Note 34: Short term debtors and payments in advance

2008/09 £millions	2009/10 £millions		2010/11 £millions
		Money owed to us by:	
		Government Departments:	
5.286	8.418	- Central Government	9.617
4.262	8.447	- Local Government	9.950
-	1.416	- NHS	0.895
0.103	0.122	Officers for car loans and leasing arrangements	0.114
0.077	0.080	Other organisations for loans which they must repay within one year	0.094
25.095	28.722	Other organisations	19.931
14.350	12.815	Payments made in advance - other organisations	12.502
-	-	Payments in Advance - Central Government	0.848
-	0.040	Payments in Advance - Local Government	0.049
-	1.011	Payments in Advance - NHS	-
49.173	**61.071**		**54.000**

Note 35: Short term creditors

2008/09 (Restated) £millions	2009/10 £millions		2010/11 £millions
		Money we owe to:	
		Government Departments:	
-8.860	-8.271	- Central Government	-7.325
-3.943	-7.148	- Local Government	-8.378
-	-0.452	- NHS	-0.362
-40.762	-43.044	Other organisations	-46.562
-13.292	-14.938	Employees (under IAS19)	-10.559
-9.654	-14.270	Receipts in advance - other organisations	-6.709
-4.262	-5.327	Receipts in advance - Central Government	-16.157
-0.377	-0.358	Receipts in advance - Local Government	-0.211
-0.085	-0.397	Receipts in advance - NHS	-0.076
-81.235	**-94.205**		**-96.339**

Note 36: Provisions

2008/09 (Restated) £millions	2009/10 (Restated) £millions		2010/11 £millions
-2.877	-2.653	Total insurance provision (excl. MMI) set aside on 1 April	-3.114
		Add:	
-2.543	-2.630	premiums received from services	-1.073
-0.203	-0.033	interest received	-0.035
		Less:	
0.591	0.561	insurance premiums paid	0.666
0.773	1.057	net claims paid	0.599
0.635	0.551	professional and administrative costs	0.447
0.203	0.033	Transfer to reserves set aside for other purposes	0.035
-3.421	**-3.114**	**Total insurance provision set aside on 31 March**	**-2.475**
		Resources	
-	-0.316	Repairs and maintenance contracts not yet complete	-0.097
-	-	Redundancies	-0.306
-	-	Human resources project	-0.039
-	-	Legal costs	-0.026
-	-	Southwest One work in progress	-0.020
		Environment	
-	-	Legal costs on appeal cases	-0.053
-	-	Contractor claims under network management contract	-0.250
-	-	Closure costs for Safety Camera Partnership & Speed Choice	-0.263
		Children's Services	
-	-	ICT connections maintenance in Children's Centres	-0.029
-	-	Education Business Link activity in schools	-0.070
-	-	Downs syndrome project	-0.024
-	-	Social worker training programme	-0.535
-	-	Taunton Academy building surveys	-0.090
		Coroners' Service	
-	-0.055	Charges relating to the Camelford inquest	-
-3.421	**-3.485**	**Total Provisions due in less than 1 year**	**-4.277**
		Municipal Mutual Insurance (MMI) Provision	
-	-0.768	Relating to asbestos claims paid by MMI	-0.768
-	**-0.768**	**Total Provisions due in more than 1 year**	**-0.768**

Insurance provision
The Insurance Fund directly covers a wide range of our insurance risks. However, there are a very limited range of risks which are not covered by insurance and we charge any loss which arises directly to the service concerned. At the end of the year we have £2.385 million of claims not yet finally agreed (£3.143 million in 2009/10) which we have not yet charged to the fund, but we have set aside £2.475 million as a provision. We also have an earmarked reserve for the Insurance Fund, which currently contains £4.315 million. As we self-insure, we must put aside funds for any future claims as well as the current claims we must still pay.

Note 37: Other long term liabilities

2008/09 £millions	2009/10 £millions		2010/11 £millions
-0.371	-0.428	Finance Lease Liability - due in more than 1 year	-0.421
-290.163	-562.781	Pensions liability	-394.074
-290.534	**-563.209**		**-394.495**

Note 38: Capital Grants/Contributions Receipts in Advance

The Authority has received a number of grants, contributions and donations that have yet to be recognised as income as they have conditions attached to them that will require the monies or property to be returned to the provider. The balances at the year-end are as follows:

2008/09 (Restated) £millions	2009/10 (Restated) £millions		2010/11 £millions
		Capital Grant Receipts in Advance	
		Where the conditions are likely to be met within 1 year:	
-7.770	-10.955	- Standards Fund (Schools Department for Education)	-6.161
-0.645	-	- Department for Transport	-2.550
-	-1.479	- DEFRA	-0.280
-0.003	-0.897	- Department for Communities and Local Government	-0.853
-8.418	**-13.331**		**-9.844**
		Where the conditions are likely to be met in more than 1 year:	
-0.832	-	- DEFRA	-
-4.162	-5.690	- Standards Fund (Schools Department for Education)	-10.036
-	-4.000	- Department for Transport	-1.450
-4.994	**-9.690**		**-11.486**
		Capital Contribution Receipts in Advance (RIA)	
		Where the conditions are likely to be met within 1 year:	
-	-0.786	- Section 106 Contributions	-2.500
-	-	- Other Contributions to our Capital Schemes	-
-	**-0.786**		**-2.500**
		Where the conditions are likely to be met in more than 1 year:	
-3.004	-2.728	- Section 106 Contributions	-3.373
-0.054	-0.055	- Section 52 Contributions	-0.055
-0.484	-0.379	- Other Contributions to our Capital Schemes	-0.345
-3.542	**-3.162**		**-3.773**
-8.418	-14.117	Total Capital Grant/Contributions RIA's, where conditions are likely to be met within 1 year	-12.344
-8.536	-12.852	Total Capital Grant/Contributions RIA's, where conditions are likely to be met in more than 1 year	-15.259
-16.954	**-26.969**	**Total**	**-27.603**

Note 39: Usable Reserves

The table below summarises the opening and closing balances for the usable reserves.

2008/09 £millions	2009/10 £millions		2010/11 £millions
27.330	30.608	General Fund - Schools	30.083
12.506	14.155	General Fund - Other	15.086
24.100	19.008	Earmarked Reserves - set aside for revenue purposes	24.085
10.743	9.343	Capital Receipts Reserve	7.689
4.975	-1.227	Capital Grants Unapplied Reserve	1.178
2.410	5.062	Capital Contributions Unapplied Reserve	7.382
82.064	**76.949**	**Total Usable Reserves**	**85.503**

These reserves can be used by the Authority to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt). A brief description of each of the usable reserves is provided below:

General Fund – Schools

This balance represents the cumulative surplus available to Schools to support their revenue spending. Although this reserve is reported within our accounts, the Authority has no control over what the reserve can be spent on

General Fund – Other

This balance represents the cumulative surplus available to the Authority to support revenue spending and which has not been earmarked for a specific purpose.

Earmarked Reserves – set aside for revenue purposes

This balance represents monies available to support revenue spending but which the Authority have earmarked for specific purposes.

Capital Receipts Reserve

This reserve contains amounts raised through the sale of capital assets such as land and buildings. Capital reserves are not allowed to be used for revenue purposes and in certain cases can only be used for specific statutory purposes. The Usable Capital Receipts Reserve is a reserve established for specific statutory purposes.

Capital Grants & Contributions Unapplied Reserves

These reserves represents the balance of capital grants and contributions that have been recognised as income but have yet to be used to finance capital expenditure.

The movements in the Authority's usable reserves are detailed in the Movement in Reserves Statement.

Note 40: Unusable Reserves

The table below summarises the opening and closing balances for the unusable reserves.

2008/09 £millions	2009/10 £millions		2010/11 £millions
270.546	277.385	Revaluation Reserve	256.565
604.170	574.496	Capital Adjustment Account	539.494
-7.016	-	Financial Instruments Adjustment Account	-
-290.163	-562.781	Pensions Reserve	-394.074
0.319	0.431	Collection Fund Adjustment Account	1.756
-13.292	-14.938	Accumulated Compensated Absences Adjustment Account	-10.559
564.564	**274.593**	**Total Unusable Reserves**	**393.182**

The following text gives a brief description of each of the unusable reserves and shows the in year movement of each reserve to support the opening and closing amounts shown in the table above.

Revaluation Reserve

The Revaluation Reserve contains the gains made by the Authority arising from increases in the value of its Property, Plant and Equipment and Intangible Assets. The balance is reduced when assets with accumulated gains are:

- Revalued downwards or impaired and the gains are lost;
- Used in the provision of services and the gains are consumed through depreciation; or
- Disposed of and the gains are realised.

The Reserve contains only revaluation gains accumulated since 1 April 2007, the date that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

2009/10 £millions		2010/11 £millions	2010/11 £millions
270.546	**Balance at 1 April**		**277.385**
23.551	Upward revaluation of assets	7.841	
-1.200	Revaluation/Impairment (losses) not charged to the Surplus/Deficit on the Provision of Services	-5.513	
22.351	Surplus/Deficit on revaluation of non-current assets not posted to the Surplus/Deficit on the Provision of Services		**2.328**
-7.929	Difference between fair value depreciation and historical cost depreciation	-8.524	
-7.583	Accumulated gains on asset disposals	-14.623	
-15.512	Amount written off to the Capital Adjustment Account		**-23.147**
277.385	**Balance at 31 March**		**256.566**

Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside as finance for the costs of acquisition, construction and enhancement.

The Account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed.

The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

Note 7 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

2009/10 £millions			2010/11 £millions
604.170	**Balance at 1 April**		**574.496**
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
-48.162	- Charges for depreciation and impairment of non current assets/assets held for sale	-62.799	
-1.360	- Revaluation losses on Property, Plant and Equipment	-1.246	
-0.071	- Amortisation of intangible assets	-0.072	
-	- Reversal of Icelandic impairment	2.253	
-7.369	- Revenue expenditure funded from capital under statute	-5.403	
-28.126	- Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	-56.347	
-85.088			-123.614
15.512	Adjusting amounts written out of the Revaluation Reserve		23.147
-69.576	Net written out amount of the cost of non current assets consumed in the year		-100.467
	Capital Financing applied in the year:		
5.609	- use of the Capital Receipts Reserve to finance new capital expenditure	6.802	
25.731	- Capital grants and contributions that have been applied to capital financing	37.412	
18.188	- Statutory provision for the financing of capital investment charged against the General Fund balance	20.506	
0.328	- Capital expenditure charged against the General Fund balance	1.826	
49.856			66.546
-9.939	Capitalisation of Icelandic investment impairment, transferred from the Financial Instruments Adjustment Account		-
-	Capitalisation of 2010/11 redundancy costs		-1.064
-	Movement in the Donated Assets Account credited to the Comprehensive Income and Expenditure Statement		-
-0.015	Other movements		-0.017
574.496	**Balance at 31 March**		**539.494**

Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions. Last year the Financial Instrument Adjustment Account was used to transfer the impairment of the Icelandic investments to our Capital Adjustment Account thus adhering to the instructions of CIPFA. This year there has been no movement on the Financial Instruments Adjustment Account as we have no material premiums or discounts which need to be “smoothed out”.

2009/10 £millions		2010/11 £millions
-7.016	**Balance at 1 April**	-
-2.923	Further impairment of Icelandic investments	-
-	Proportion of premiums incurred in previous financial years to be charged against the General Fund balance in accordance with statutory requirements	-
	Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	-
9.939	Transfer to Capital Adjustment Account Iceland Impairment	
-	**Balance at 31 March**	-

Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The Authority accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Authority makes employer’s contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Authority has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

2009/10 £millions		2010/11 £millions
-290.163	**Balance at 1 April**	**-562.781**
-250.802	Actuarial gains or losses on pensions assets and liabilities	104.934
-49.053	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	35.441
27.237	Employer's pensions contributions and direct payments to pensioners payable in the year	28.332
-562.781	**Balance at 31 March**	**-394.074**

Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of Council Tax income in the Comprehensive Income and Expenditure Statement as it falls due from Council Tax payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

2009/10 £millions		2010/11 £millions
0.319	**Balance at 1 April**	**0.431**
0.112	Amount by which Council Tax income credited to the Comprehensive Income and Expenditure Statement is different from Council Tax income calculated for the year in accordance with statutory requirements	1.325
0.431	**Balance at 31 March**	**1.756**

Accumulated Compensated Absences Adjustment Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

2009/10 £millions		2010/11 £millions
-13.292	**Balance at 1 April**	**-14.938**
13.292	Settlement or cancellation of accrual made at the end of the preceding year	14.938
-14.938	Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	-10.559
-14.938	**Balance at 31 March**	**-10.559**

Note 41: Cash and Cash Equivalents

We have several bank accounts for various purposes. Our main banking contract is with National Westminster Bank Plc.

We group together deposits or overdrafts with the same bank. This gives the balance of cash and cash equivalents along with the bank overdraft, made up of the following elements:

2008/09 £millions	2009/10 £millions		2010/11 £millions
-	18.350	Net Cash in hand	15.462
28.860	18.490	Short term Investment (initial maturity term less than 1 month)	35.170
28.860	**36.840**	**Cash and cash equvalents sub total**	**50.632**
-5.274	-7.850	Bank overdraft	-4.989
23.586	**28.990**	**Cash and cash equivalents at the end of the reporting period**	**45.643**

Note 42: Cash Flow Statement – Operating Activities

Adjustments to the net surplus or deficit on the provision of services for non cash movements:

2009/10 £millions		2010/11 £millions
66.635	Net surplus(-)/deficit on the provision of services	**-19.881**
-22.746	Capital/Revenue Grant restatement (re. IFRS)	-
-43.774	Depreciation and amortisation	-46.875
-5.819	Impairment and downward valuations	-11.746
-1.111	IAS 19 - Pension Liability	63.773
-2.923	Iceland impairment	2.253
-28.126	Carrying amount of non-current assets sold	-56.347
-4.854	Carrying amount of short and long term investments sold	-2.373
-	Other non-cash movements	-0.077
-3.372	Movement in working capital	-17.283
-112.725		**-68.675**
31.669	Adjustment for items that are investing or financing activities	43.828
-14.421		**-44.728**

The cash flows for operating activities include the following items:

2009/10 £millions		2010/11 £millions
-7.023	Interest received	-4.201
16.923	Interest paid	38.157

Note 43: Cash Flow Statement – Investing Activities

2009/10 £millions		2010/11 £millions
64.588	Purchase of property, plant and equipment, investment property and intangible assets	57.413
-	Purchase of short term and long term investments	10.000
10.508	Other payments for investing activities	4.342
-5.646	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	-5.121
-63.365	Proceeds from short term and long term investments	-2.373
-32.621	Other receipts from investing activities	-33.761
-26.536	**Net cash flows from investing activities**	**30.500**

Note 44: Cash Flow Statement – Financing Activities

2009/10 £millions		2010/11 £millions
-35.010	Cash receipts of short and long term borrowing	-7.375
-0.112	Appropriation to Collection Fund Adjustment Account	-1.325
70.675	Repayments of short term and long term borrowing	6.275
-	Other payments for financing activities	-
35.553	**Net cash flows from financing activities**	**-2.425**

Note 45: Capital Expenditure and Capital Financing

The total amount of capital expenditure incurred in the year is included in the table below (including the value of assets acquired under finance leases and PFI/PPP contracts), together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Authority, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Authority that has yet to be financed. The CFR is analysed in the second part of this note.

	2008/2009 £millions	2009/2010 £millions	2010/11 £millions
Opening Capital Financing Requirement	265.228	316.895	349.220
Capital Investment:			
- Property, Plant and Equipment	94.498	64.873	63.213
- Intangible Assets	-	-	-
- Revenue Expenditure Funded from Capital Under Statute	7.382	7.369	5.403
Capitalised Icelandic Investment Impairment/(Reversal)	-	9.939	-2.253
Capitalised Redundancy Costs	-	-	1.064
Sources of Finance			
- Capital receipts	-7.296	-5.609	-6.802
- Government grants and contributions	-27.873	-25.731	-37.412
- Sums set aside from revenue:			
- Direct revenue contributions	-2.058	-0.328	-1.826
- MRP/loans fund principal	-12.986	-18.188	-19.506
- Capitalised Icelandic Impairment Repayment	-	-	-1.000
Closing Capital Financing Requirement	**316.895**	**349.220**	**350.101**

	2008/2009 £millions	2009/2010 £millions	2010/11 £millions
Explanation of movements in year			
Increase/(Decrease) in underlying need to borrowing (supported by government financial assistance)	26.599	27.795	24.187
Increase/(Decrease) in underlying need to borrowing (unsupported by government financial assistance)	25.038	4.469	-23.306
Assets acquired under finance leases	0.030	0.061	-
Assets acquired under PFI/PPP contracts	-	-	-
Increase/(Decrease) in Capital Financing Requirement	**51.667**	**32.325**	**0.881**

Note 46: Contingent Liabilities

In future, we may have to refund charges we have made to people in previous years under section 117 of the Mental Health Act 1983. We have set aside £200,000 within the 2011/12 budget to meet possible claims. We are also contesting three employment tribunals by former Council employees and an injunction is proceeding.

Note 47: Contingent Assets

We currently have no contingent assets.

Note 48: Landfill Allowance Trading Scheme

The Council receives landfill allowances as part of the Landfill Allowance Trading Scheme (LATS), established by the Department for Environment Food and Rural Affairs (DEFRA). In 2010/11 the Council was given allowances by DEFRA to dispose of 104,802 tonnes of biodegradable municipal waste in landfill sites. The Council disposed of 90,795 tonnes of such waste in landfill sites in 2010/11, resulting in an unused balance of 14,007 tonnes of allowances. There is currently no active market for landfill allowances and therefore these unused allowances are not recorded in the balance sheet.

Note 49: Trust Funds

We have not included these funds, which we manage on behalf of trusts, on our consolidated balance sheet because the money does not belong to us. Most of the money can only be used for residential homes and educational purposes. On 31 March 2011 these stood at the levels shown below.

At the Eagle House Educational Trust meeting held on 20 September 2010, it was agreed to wind up and transfer the trust funds and holdings to Somerset Community Foundation. Approval was obtained from the Charity Commission on 3 February 2011. Therefore there is no closing balance for the Trust.

2009/10 £millions		2010/11 £millions
0.951	Field House	0.999
0.494	Eagle House	-
2.908	Bishop Fox's Foundation	2.951
0.039	Other trusts	0.039
4.392		**3.989**

We are the only trustee of the Field House Trust. We can only use this money for helping the elderly people of Somerset, with preference for the elderly of Shepton Mallet. There is an extract from the Field House Trust accounts below.

2009/10 £millions		2010/11 £millions
-0.050	Total income	-0.050
0.120	Total spending	0.002
0.070	**Surplus**	**-0.048**
0.951	Value of assets	0.999
-	Less: long-term liabilities	-
0.951	**Total value of the fund**	**0.999**

Note 50: Defined Benefit Pension Schemes

Our staff can contribute to one of two statutory pension schemes depending on their job. We, as their employer, have to make contributions towards these pensions in line with the rules governing each scheme. This note explains the contributions we make to these schemes.

We apply the ‘projected unit method’ for valuing the costs to the fund of the benefits to members. With this method, the current service cost of the Local Government Scheme will increase as members of the scheme approach retirement.

We also have to show specific information about assets, liabilities, income and spending relating to the pension schemes we run. These requirements are set out in International Accounting Standard 19 (IAS 19).

Table 1: Total pension deficit

2009/10 £millions		2010/11 £millions
-562.781	Local Government Pension Scheme	-394.074
-562.781	Net deficit on 31 March	-394.074

In the UK budget statement on 22 June 2010 the Chancellor announced that with effect from 1 April 2011 public service pensions would be up-rated in line with the Consumer Prices Index (CPI) rather than the Retail Prices Index (RPI).

This had the effect of reducing the Authority’s liabilities in the Pension Fund by £104.934m and has been recognised as an actuarial gain in accordance with guidance set down in UITF Abstract 48. The change is regarded as an adjustment to the actuarial assumptions previously used to estimate the liability. There is no impact upon the General Fund, the remaining movement of £63.773m is explained in table 6.

Local Government Pension Scheme

This is the scheme for most local government employees. However, there is a separate scheme for teachers. This is a funded, defined-benefit pension scheme that we manage. The most recent full actuarial valuation of this scheme was done on 31 March 2010. The table below shows the costs in millions of pounds, and as a percentage of total pensionable pay.

Table 2

2009/10 £millions	%		2010/11 £millions	%
25.192	14.6	Contributions we have paid to the Pension Fund towards our employees' pensions	25.254	15.1
28.348	16.2	Pension costs that we should charge to the accounts in line with proper accounting rules	123.601	74.1
1.517	1.0	Discretionary pension payments made in the year	1.391	0.8
-	-	Capital costs of discretionary pensions that we agreed during the year	-	-
27.462	-	Capital costs of discretionary pensions that we agreed in previous years	49.380	-

Table 3: In applying IAS 19, we have made the following assumptions.

2009/10 %		2010/11 %
	Assumptions used for:	
3.9	inflation	3.5
5.4	rate of increase in salaries	5.0
3.9	rate of increase for pension payments	2.7
3.9	rate of increase in deferred pensions	2.7
5.5	rate used to discount liabilities	5.5
N/A	rate of CPI increases	2.7

Table 4: The fair market value of the assets we hold and the percentage rate of return that we have earned on these assets are as follows.

2009/10 £millions	%		2010/11 £millions	%
381.861	7.8	Equities	414.920	7.7
37.125	4.5	Gilts	33.642	4.4
58.340	5.5	Bonds	67.284	5.5
42.429	6.9	Property	39.249	6.8
10.607	3.0	Cash	5.607	3.0
530.362			560.702	

The expected return on assets is based on the long-term expected investment return for each asset class as at 1 April 2010 for the year to 31 March 2011. We assume the return on gilts and other bonds to be the gilt yield and corporate bond yield (with an adjustment to reflect default risk) respectively at the relevant date. The return on equities and property is then assumed to be a margin above gilt yields.

Table 5: The estimated deficit on the scheme is as follows.

2009/10 £millions		2010/11 £millions
530.362	Our share of the assets in the scheme	560.702
-1,093.143	Less estimated liabilities	-954.776
-562.781	Deficit on the scheme	-394.074

Table 6: Changes in the deficit during the year is as follows.

2009/10 £millions		2010/11 £millions
-290.163	Net deficit on 1 April	-562.781
-27.760	Current service cost	-40.012
25.747	Contributions received	26.890
1.490	Unfunded pension payments	1.442
-	Past service cost	94.967
-20.705	Other finance income	-21.258
-0.588	Curtailments	1.744
-250.802	Actuarial gain or (loss)	104.934
-562.781	Net deficit on 31 March	-394.074

Table 7: The actuarial gain or loss (-) can be broken down as follows.

2009/10 £millions	%		2010/11 £millions	%
109.565	20.7	Actual return less expected return on assets	-7.068	-1.3
-	0.0	Experience gains arising on the scheme liabilities	22.551	2.4
-360.367	22.9	Effects of changes in assumptions relating to the current value of the scheme liabilities	89.451	11.0
-250.802			104.934	

Table 8: Life expectancy assumptions

Life Expectancy in years from age 65		
Retiring today		
	Males	19.8
	Females	23.9
Retiring in 20 years		
	Males	21.9
	Females	25.8

Table 9: Changes in the opening and closing balances of present value of the defined benefit obligation

2009/10 £millions		2010/11 £millions
-672.937	Defined benefit obligation at the start of the period	-1,093.143
-27.760	Service cost	-40.012
-45.565	Interest costs	-59.113
-360.367	Actuarial losses/(gains)	114.612
-0.651	Losses/(gains) on curtailments	-3.320
22.856	Estimated benefits paid (not including transfers in)	34.011
-	Past service cost	94.967
-11.101	Contributions by scheme members	-10.852
0.892	Liabilities which are paid off with settlements	6.632
1.490	Unfunded pension payments	1.442
-1,093.143	Defined benefit obligation at the end of the period	-954.776

Table 10: Changes in the opening and closing balances of the fair value of scheme assets

2009/10 £millions		2010/11 £millions
382.774	Fair value of the scheme's assets at the start of the period	530.362
24.860	Expected return on the scheme's assets	37.855
109.565	Actuarial gains/(losses)	-9.678
27.237	Contributions by employer (including unfunded benefits)	28.332
11.101	Contributions by scheme members	10.852
-0.829	Bulk transfer value received	-1.568
-24.346	Estimated benefits paid (including unfunded benefits)	-35.453
530.362	Fair value of the scheme's assets at the end of the period	560.702

Table 11: Changes in the present value of the scheme liabilities and the fair value of the scheme assets matched to the liabilities and assets on the balance sheet

2009/10 £millions		2010/11 £millions
-1,071.437	Current value of funded obligation	-934.957
530.362	Fair value of the scheme's assets (bid value)	560.702
-541.075	Net liability	-374.255
-21.706	Present value of unfunded obligation	-19.819
-562.781	Net liability in the balance sheet	-394.074

Table 12: Total expense recognised in the income and expenditure account

2009/10 £millions		2010/11 £millions
27.760	Current service cost	40.012
45.565	Interest cost	59.113
-24.860	Expected return on the scheme's assets	-37.855
-	Past service costs	-94.967
0.588	Losses on curtailments	-1.744
49.053	Total pensions cost shown in income and expenditure account	-35.441

Table 13: Amounts for the current and previous periods

	2010/11 £ millions	2009/10 £ millions	2008/09 £ millions	2007/08 £ millions	2006/07 £ millions
Defined benefit obligation	-954.776	-1,093.143	-672.937	-708.652	-732.327
Scheme's assets	560.702	530.362	382.774	506.444	549.993
Surplus or deficit	-394.074	-562.781	-290.163	-202.208	-182.335
Experience adjustments on scheme's assets	-9.678	109.565	-169.064	-92.425	29.530
Experience adjustments on scheme's liabilities	25.161	-	-	-40.059	-

Table 14: Estimated pension expenses for the year to 31 March 2012

	2011/12 £millions
Service cost	29.963
Interest cost	52.697
Return on assets	-40.098
Total	**42.562**
Employer's contributions	**23.373**

Teachers' Pension Scheme
This is a notionally-funded, defined-contribution scheme that is managed by the Teachers Pension Agency. This means we pay contributions as if it was a funded scheme, when, in fact, it is not. Because this scheme is not funded, there is no need for a full actuarial valuation. The table below shows the costs in millions, and as a percentage of total pensionable pay.

Table 15

2009/10 £millions	2009/10 %		2010/11 £millions	2010/11 %
20.220	14.10	Pension costs charged to the accounts	19.980	14.10
0.124	0.09	Discretionary payments made	0.096	0.07

Group accounts

Group accounts bring together the accounts of Somerset County Council and other parties in which we have a stakeholding.

In previous years we have consolidated the accounts of PLUSS Ltd into our Group Accounts. This year we have remained consistent with the other partners of PLUSS Ltd: Torbay Council; Devon County Council and Plymouth City Council and not produced group accounts. We only have an associate shareholding and our share of the assets and liabilities are not material.

The company's accounts are available from:

The PLUSS Organisation
22 Marsh Green Road
Exeter
Devon
EX2 8PG

The Pension Fund

This section summarises the accounts of our Local Government Pension Fund. We use the local Government Pension fund to pay former employees their pensions and other benefits when they retire.

Local Government Pension Fund (LGP Fund)

By law, we have to run a pension fund for local government staff in Somerset. We have split the total fund into twelve sub-funds. Five of these funds are managed by Jupiter Asset Management, JP Morgan Investment Management, Pioneer, Aviva Investors and UBS. Two are managed by Standard Life and two are managed by Record Currency Management. There are two managed here by the Chief Financial Officer. A more detailed description of the fund's year is available as a supplementary booklet from the Chief Financial Officer.

Who the pension fund covers

The fund receives contributions and investment income to meet pension benefits and other liabilities related to a large number of the County Council's employees. It does not cover teachers (whose pensions are managed through the Government's Department for Children, Schools and Families) or firefighters, who have their own scheme. The fund also extends to cover employees of district councils, civilian employees of the Avon and Somerset Police Authority (police officers have a separate scheme) and employees of other member bodies. A full list of employers who participate in the fund is provided on the next page.

Contributions by employees are based on seven tiered contribution bands dependent on the individual employee’s pay, the seven contribution bands range from 5.5% to 7.5%. Nationally the Government estimate the average employee contribution is 6.3%.

All employers' contribution rates are decided by the fund's actuary every three years as part of his valuation of the fund. The last valuation of the fund was made as at 31 March 2010. For Somerset County Council, for example, the employer's rate for the three years covered by this valuation is 13.5% for each of the years from 2011 to 2014 plus a sum of £3.77m for 2011/2012, £4.88m for 2012/2013 and £5.83m for 2013/2014. This compares with a rate of 15.1% for the 2010/2011 year set under the 2007 valuation. A common contribution rate will, in the long term, be enough to meet the liabilities of the fund assessed on a full-funding basis – this was 17.9% at the 2010 valuation (14.7% at the 2007 valuation). This common contribution rate can be split into amounts that meet new service and an amount needed to make up the deficit in the fund, the common rate of 17.9% is made up of a rate of 13.1% for new service and 4.8% for deficit funding. As part of the 2010 valuation most employers have agreed to meet the deficit funding portion by paying a fixed monetary amount rather than a percentage of pensionable pay (as demonstrated by the example of Somerset County Council above). At the valuation the actuary estimated that the fund’s assets covered 77% of the fund’s liabilities.

The pension and lump-sum payments that employees receive when they retire are related to their final year’s salary and how long they have worked for an employer within the fund. Increases in pension payments linked to inflation come out of the fund.

Summary of the scheme member bodies

<u>Administering authority</u> Somerset County Council **<u>Member bodies</u>** **Major scheduled bodies** **County council -** Somerset **Police authority -** Avon and Somerset (civilian staff) **District councils -** Mendip Sedgemoor South Somerset Taunton Deane West Somerset **Other scheduled bodies with contributors** **Parish and town councils, and so on -** Axbridge Town Council Berrow Parish Council Burnham and Highbridge Town Council and Burial Board Berrow Parish Council Chard Town Council Crewkerne Town Council and Burial Board Frome Town Council Glastonbury Town Council Ilminster Town Council Langport Town Council Lower Brue Drainage Board Minehead Town Council North Petherton Town Council Shepton Mallet Town Council Somerton Town Council Street Parish Council Wellington Town Council Wells Burial Board and Parish Council Williton Parish Council Wincanton Town Council Yeovil Town Council **Academies** Taunton Academy Huish Episcopi Academy Holyrood Academy	**Further-education colleges** Bridgwater College Richard Huish Sixth Form College Somerset College of Art and Technology Strode College Yeovil College **Foundation and voluntary-aided schools** Bruton Primary School Bruton Sexeys School Brymore School Charlton Horethorne Primary School Enmore Primary School Wellington St John's Primary School **Other bodies** Avon and Somerset Local Probation Board Exmoor National Park **Admitted bodies with contributors** Care Focus Somerset Ltd Connect South West Ltd DHI ECT Recycling Ltd Homes in Sedgemoor Learning and Skills Network Learning South West Magna West Somerset Housing Association Flourish Homes Ltd National Autistic Society SHAL Housing Ltd Society of Local Council Clerks Somerset Care Ltd Somerset Redstone Trust Somerset Rural Youth Project Somerset Leisure Trust South West Regional Assembly Board Tone Leisure Ltd Yarlington Housing Group **Other scheduled bodies without contributors (pensioners only)** Long Ashton Parish Council North Somerset Drainage Board Martock Parish Council **Admitted bodies without contributors (pensioners only)** Ammerdown College Signpost Housing Association Vaughan Lee House

LGPS Fund account

2009/10 Restated £millions		2010/11 £millions	Notes
	Contributions and other income		
-21.526	From employees: basic	-21.633	1
-0.561	From employees: additional	-0.577	1
-54.084	From employers	-54.341	1
-1.615	Recoveries from member organisations	-1.535	1
-11.314	Transfer values received	-12.715	2
-89.100		**-90.801**	
	Less benefits and other payments		
45.822	Recurring pensions	46.651	1
13.423	Lump sum on retirement	20.296	1
0.807	Lump sum on death	1.250	1
7.468	Transfer values paid	8.874	2
0.017	Refund of contributions	0.016	3
0.987	Administration expenses	0.994	4
-20.576	**Contributions after payments**	**-12.720**	
	Investment income		
-30.638	Income earned on investments – received	-28.524	5
-4.497	Income earned on investments – accrued	-5.629	5
3.633	Less investment expenses	4.032	6
1.198	Less irrecoverable tax	1.441	
-0.004	Other income (commission and so on)	-0.006	
-30.308		**-28.686**	
	Change in market value of investments		
-23.241	Realised profit	-18.006	
-239.150	Unrealised profit	-34.562	
-262.391		**-52.568**	
-292.699	**Net return on investments**	**-81.254**	
	Change in actuarial present value of promised retirement benefits		
623.494	Vested benefits	-329.429	
142.548	Non-vested benefits	84.186	
766.042	**Net change in present value of promised benefits**	**-245.243**	
452.767	**Net increase (–) or decrease in the fund during the year**	**-339.217**	
580.894	**Add net liabilities at beginning of year**	**1,033.661**	
1,033.661	**Net liabilities at end of year**	**694.444**	

Net Assets Statement

On 31 March 2010 Restated £millions		On 31 March 2011 £millions	Notes
	Investment assets and liabilities		
1,091.355	Investment assets	1,165.113	7
-27.680	Investment liabilities	-6.138	7
6.878	Other investment balances	6.287	10
	Current assets		
1.270	Contributions due from employers	1.488	
-	Cash at bank	0.033	
6.875	Other debtors	6.429	
	Current liabilities		
-	Unpaid benefits	-	
-0.021	Bank overdraft	-	
-3.153	Other creditors	-3.714	
	Actuarial present value of promised retirement benefits		
-1,847.970	Vested benefits	-1,518.541	
-261.215	Non-vested benefits	-345.401	
-1,033.661	**Net liabilities at end of year**	**-694.444**	

The accounts reflect the assets that are available to the trustee, and the current liabilities. Longer-term liabilities for future pension benefits are not reflected in the accounts. Future contributions are matched to future liabilities through an actuarial valuation.

Accounting policies

The Fund account is prepared on a full accruals basis, with the exception of transfer values. As a result the following apply:

- investments are included at market value;
- the majority of listed investments are stated at the bid price or the last traded price, depending on the convention of the stock exchange on which they are quoted, at the date of the net assets statement;
- fixed interest securities are valued excluding accrued income;
- pooled investment vehicles are stated at bid price for funds with bid/offer spreads, or single price (typically net asset value) where there are no bid/offer spreads, as provided by the investment manager.
- forward foreign exchange contracts are valued using the foreign exchange rate at the date of the net asset statement.
- The Neuberger Berman Crossroads 2010 fund is valued using data supplied by the fund quarterly.

- the South West Regional Venture Fund is valued at cost;
- contributions and benefits are accounted for in the period in which they fall due;
- interest on deposits and fixed interest securities are accrued if they are not received by the end of the financial year;
- interest on investments are accrued if they are not received by the end of the financial year;
- all dividends and interest on investments are accounted for on 'ex-dividend' dates;
- all settlements for buying and selling of investments are accrued on the day of trading;
- transfer values are accounted for when money is received or paid. This treatment is in line with the revised SORP which applied fully from 1 April 1998. 9 transfers into the scheme amounting to £1,162,000 were agreed but not settled on 31 March 2011. There were no transfers out which were outstanding at the end of the financial year. None of these appear in these accounts;
- the fund has significant investments overseas. The value of these investments in the net asset statement is converted into sterling at the exchange rates on 31 March. Income receipts, and purchases and sales of overseas investments, are normally converted into sterling at or about the date of each transaction and are accounted for using the actual exchange rate received. Where the transaction is not linked to a foreign exchange transaction to convert to sterling the exchange rate on the day of transaction is used to convert the transaction into sterling for accounting purposes;
- The 2009-2010 financial figures provided for comparison purposes have been restated compared to the original version provided in last year's accounts. On the net asset statement the balance held in the fund's bank account has been separated out from the investment assets cash balance and is shown as a £21,000 overdraft within the current liabilities, as a result the cash invested internally figure has increased by £21,000. The 2009-2010 accounts have also been restated to show the actuarial present value of promised retirement benefits and the change in this during the year. This is a new accounting requirement this year; and
- the Pension Fund financial statements have been prepared in line with the conditions of Chapter 2 – Recommended Accounting Practice of the Pension SORP 2007.

Notes to accounts

Note 1: Contributions and benefits

	Somerset County Council £millions	Scheduled organisations £millions	Admitted organisations £millions	Total £millions
Employees' contributions				
– Normal	-10.561	-9.153	-1.919	-21.633
– Additional	-0.295	-0.269	-0.013	-0.577
Total	-10.856	-9.422	-1.932	-22.210
Employers' contributions				
– Normal	-22.649	-19.046	-4.145	-45.840
– Augmentation	-2.127	-1.463	-0.582	-4.172
– Deficit funding	-2.685	-1.024	-0.620	-4.329
Total	-27.461	-21.533	-5.347	-54.341
Recurring pension and lump-sum payments	34.848	28.502	4.847	68.197
Recoveries (money received) from member organisations	-0.140	-1.375	-0.020	-1.535
Total	**-3.609**	**-3.828**	**-2.452**	**-9.889**

Note 2: Transfer values

2009/10 £millions		2010/11 £millions
-11.314	Individual transfer values received	-12.715
7.468	Individual transfer values paid	8.874

Note 3: Refunds

2009/10 £millions		2010/11 £millions
	Contributions refunded to people who leave the scheme with less than three months' service	0.017
-	Interest built up in past cases	0.002
0.012		0.019
-0.002	Less deductions from contributions equivalent premium	-0.002
0.007	Add/less (-) payments to Department for Work and Pensions contributions equivalent premium	-0.001
0.017		**0.016**

Note 4: Administration expenses

2009/10 £millions		2010/11 £millions
0.815	Administration costs charged by Somerset County Council	0.844
0.033	Actuary's fees	0.055
0.009	Legal expenses	0.016
0.130	Other expenses	0.079
0.987		**0.994**

Note 5: Investment income

2009/10 £millions		2010/11 £millions
-11.547	Fixed interest	-9.159
-0.975	Index linked	-0.751
-9.028	UK equities	-9.274
-9.406	Foreign equities	-10.700
-3.643	Property unit trusts	-3.924
-0.315	Cash invested internally	-0.120
-0.001	Commission recapture	-0.001
-0.220	Stock lending	-0.224
-35.135		**-34.153**

Note 6: Investment expenses

2009/10 £millions		2010/11 £millions
	Fund manager	
0.132	Aviva Investors	0.152
0.144	JP Morgan Asset Management	0.452
0.223	Jupiter Asset Management	0.470
0.111	Pioneer	0.191
1.063	Record Currency Management	0.280
0.750	Standard Life Investments	1.002
0.104	UBS Global Asset Management	0.232
2.527		2.779
	Other expenses	
0.091	Professional services and subscriptions	0.094
0.134	Specialist IT systems	0.137
0.167	Custody fees	0.173
0.020	Fees for measuring performance	0.018
0.694	Property unit trust managers' fees	0.831
3.633	**Total investment expenses**	**4.032**

Note 7: Investment assets and liabilities

31 March 2010 Restated £millions	%	%		31 March 2011 £millions	£millions	%	%
			UK equities				
278.755	26.2		Quoted	303.421		26.2	
4.802	0.4		Standard Life smaller companies fund	5.780		0.5	
283.557		**26.6**			**309.201**		**26.7**
			Foreign equities				
215.676	20.3		North America	229.867		19.8	
125.330	11.8		Europe	136.831		11.8	
29.162	2.7		Japan	27.348		2.4	
66.967	6.3		Pacific (not including Japan)	73.211		6.3	
1.527	0.1		Middle East	1.142		0.1	
33.112	3.1		Nomura Japan fund	33.134		2.9	
33.897	3.2		Pioneer emerging markets fund	36.816		3.2	
505.671		**47.5**			**538.349**		**46.5**
			Bonds				
28.803	2.7		UK fixed-interest – public sector	17.090		1.5	
94.321	8.9		– corporate sector	106.093		9.1	
43.231	4.1		UK index linked – public sector	43.591		3.8	
-	-		– corporate sector	1.109		0.1	
1.688	0.2		Overseas index linked – public sector	0.538		-	
-	-		Foreign – public sector	-		-	
22.603	2.1		Foreign – corporate sector	35.797		3.1	
190.646		**18.0**			**204.218**		**17.6**
			Property				
69.964	6.6		UK property funds	83.957		7.2	
8.555	0.8		Overseas property funds	8.430		0.7	
78.519		**7.4**			**92.387**		**7.9**
			Private equity				
0.247			Neuberger Berman Crossroads 2010 fund	2.320		0.2	
1.900	0.2		South West regional venture fund	2.000		0.2	
2.147		**0.2**			**4.320**		**0.4**
			Derivatives				
15.051	1.4		Forward foreign exchange contracts	1.758		0.1	
-	-		Government bond futures	-		-	
15.051		**1.4**			**1.758**		**0.1**
			Cash and others				
15.764	1.5		Cash invested internally	14.880		1.3	
15.764		**1.5**			**14.880**		**1.3**
1,091.355		**102.6**	**Investment assets**		**1,165.113**		**100.5**

Note 7: Investment assets and liabilities (continued)

			Derivatives				
-27.680	-2.6		Forward foreign-exchange contracts	-6.138		-0.5	
-	-		Government bond futures	-		-	
		-2.6			-6.138		**-0.5**
27.680		**-2.6**	**Investment liabilities**		**-6.138**		**-0.5**
1,063.675		**100.0**	**Net investment assets**		**1,158.975**		**100.0**
			Made up of				
897.388			Costs from previous years		958.126		
166.287			Profits or losses we have not yet achieved		200.849		
1,063.675					**1,158.975**		

Note 8: Movement in investment assets

Manager	Asset class	Investment assets as at 1 April £millions	Change in cash invested £millions	Purchases £millions	Sales £millions	Realised profit or loss £millions	Unrealised profit or loss £millions	Investment assets as at 31 March £millions
2009/10 Restated	**Total**	747.453	-23.059	5279.086	-5202.196	23.241	239.150	1063.675
Somerset County Council	Global equity	308.917	-	64.230	-66.340	10.004	2.549	319.360
Standard Life	UK equity	254.178	-	121.400	-99.859	-2.913	6.927	279.733
JP Morgan	US equity	57.400	-	40.869	-39.226	3.820	-0.884	61.979
Jupiter	European equity	61.165	-	19.398	-14.825	-2.141	9.081	72.678
Nomura	Japanese equity	33.113	-	-	-	-	0.021	33.134
UBS	Far East equity	40.558	-	10.882	-9.199	1.623	-0.014	43.850
Pioneer	Emerging market equity	33.897	-	-	-	-	2.919	36.816
Standard Life	Bonds	190.646	-	91.972	-77.927	-1.273	0.800	204.218
Standard Life	Derivatives	-0.373	-	373.512	-373.468	-0.043	-1.272	-1.644
Aviva	Property	78.519	-	13.119	-2.339	-2.131	5.219	92.387
Aviva	Currency	-0.112	-	64.771	-64.771	-	-0.149	-0.261
Record	Currency	-12.144	-	3,186.911	-3,176.081	-10.830	9.669	-2.475
Neuberger Berman	Global private equity	0.247	-	2.412	-	-	-0.339	2.320
Yorkshire	UK venture capital	1.900	-	0.100	-	-	-	2.000
Somerset County Council	Cash	15.764	-22.809	-	-	21.890	0.035	14.880
2010/11	**Total**	**1,063.675**	**-22.809**	**3,989.576**	**-3,924.035**	**18.006**	**34.562**	**1,158.975**

Note 9: Management structure

%	As at 31 March 2010 Restated £millions	Manager	Asset class	As at 31 March 2011 £millions	%
29	308.917	Somerset County Council	Passive global equity	319.360	28
24	254.178	Standard Life	UK equity	279.733	24
5	57.400	JP Morgan	US equity	61.979	5
6	61.165	Jupiter	European equity	72.678	6
3	33.113	Nomura	Japanese equity	33.134	3
4	40.558	UBS	Far East equity	43.850	4
3	33.897	Pioneer	Emerging market equity	36.816	3
18	190.273	Standard Life	Bonds	202.574	18
7	78.407	Aviva	Property	92.126	8
-1	-12.144	Record Currency Management	Currency	-2.475	0
0	0.247	Neuberger Berman	Global private equity	2.320	0
0	1.900	Yorkshire Fund Managers	UK venture capital	2.000	0
2	15.764	Somerset County Council	Cash	14.880	1
100	**1,063.675**			**1,158.975**	**100**

Note 10: Other investment balances

31 March 2010 £millions		31 March 2011 £millions
	Assets	
4.175	Accrued income	5.057
0.322	Accrued recoverable tax	0.489
4.894	Payments due on investments sold	2.125
9.391		7.671
	Liabilities	
-2.513	Payments not made on purchases and losses due on sales	-1.384
6.878		**6.287**

Note 11: Major holdings

As at 31 March 2010				As at 31 March 2011	
Rank	£millions	Stock	Description	Rank	£millions
1	33.897	Pioneer Emerging Market Equity Fund	Pooled fund of emerging-market equities	1	36.816
2	33.113	Nomura Japan Fund	Pooled fund of Japanese equities	2	33.134
4	21.280	HSBC	UK bank	3	20.498
5	15.251	Royal Dutch Shell	UK oil company	4	20.167
6	14.897	Rio Tinto	UK mining company	5	19.020
7	14.102	Vodafone	UK mobile phone company	6	17.087
3	21.485	BP	UK oil company	7	14.927
9	11.248	BHP Billiton	UK mining company	8	12.750
8	12.115	Glaxosmithkline	UK drugs producer	9	11.513
11	8.065	Xstrata	UK mining company	10	10.174
19	5.747	BG Group	UK gas company	11	10.097
12	7.954	Aviva Pooled Pension PUT	UK property unit trust	12	8.610
15	5.966	Blackrock property fund	UK property unit trust	13	8.191
18	5.773	Exxon Mobil	US oil company	14	7.232
23	5.340	Hercules PUT	UK property unit trust	15	6.898
22	5.385	Tullow Oil	UK oil company	16	6.631
17	5.796	Standard Chartered	UK bank	17	6.367
37	4.012	Apple	US electronics company	18	6.313
36	4.030	Novo Nordisk	Danish drugs producer	19	6.052
10	8.725	Barclays	UK bank	20	5.975

None of the holdings of the Fund makes up more than 5% of the net investment assets. The largest holding (Pioneer Emerging Market Equity Fund) makes up 3.2% of the net investment assets.

Note 12. Derivatives

Investment in derivative instruments may only be made if it contributes to a reduction of risk or facilitates more efficient portfolio management. During the year the fund used forward foreign exchange contracts and bond futures.

The year end value of derivatives is as follows:

31 March 2010		**31 March 2011**		
Net value £millions	**Fund**	**Asset £millions**	**Liability £millions**	**Net value £millions**
	Forward foreign-exchange contracts			
-0.373	Standard Life Fixed Interest	0.031	-1.675	-1.644
-0.112	Aviva	-	-0.261	-0.261
-5.028	Record Active Fund	-	-	-
-7.116	Record Passive Fund	1.727	-4.202	-2.475
-12.629		**1.758**	**-6.138**	**-4.380**
	Government bond futures			
-	UK government gilt future	-	-	-
-	Euro bond futures	-	-	-
-	US government treasury future	-	-	-
-		-	-	-
-12.629		**1.758**	**-6.138**	**-4.380**

Standard Life hold forward foreign exchange contracts to hedge the foreign exchange risk of holding investments that are not valued in sterling in their fixed income portfolio. The non-sterling bonds are either government bonds or high yield bonds. Typically Standard Life choose to hedge 100% of their currency risk.

Aviva also hold forward foreign exchange contracts to hedge the foreign exchange risk of holding investments that are not valued in sterling in their property portfolio. The non-sterling investments relate to 4 funds that are invested in European property and are priced in Euros. Typically Aviva choose to hedge 100% of their currency risk.

In the Record active fund the aim is to use forward foreign exchange contracts to make a profit. Record try to make a profit from the belief that high interest rate currencies tend to increase in value relative to low interest rate currencies over time. Because currency returns are not related to the returns on other asset classes this investment should over the long term both reduce the overall volatility of returns and improve the funds overall return. The level of risk and the currencies that Record may invest in are controlled through a management agreement. The Record active fund was suspended on 14th June 2010 and has been dormant since this date.

In the Record passive fund the aim is to hedge 60% of the currency exposure of the currencies we have exposure to in our equity holdings. The currencies hedged are Australian dollars, Canadian dollars, Danish krone, euros, Hong Kong dollars, Japanese Yen, Norwegian krone, Singapore dollars, Swedish krona, Swiss francs and US dollars. The management of these exchange risks should reduce the volatility of returns of the overall fund in the long term.

The fair value of these contracts at year end is based on market foreign exchange rates at the year end date. All forward foreign exchange contracts are over the counter trades.

The bond futures are used by Standard Life to gain exposure to overseas government bonds with lower trading costs and better liquidity than trading the underlying bonds themselves. There are significant restrictions in how Standard Life use bond futures to ensure they do not increase the overall risk of the portfolio they are managing. The bond futures are exchange traded contracts.

The gross exposure values (the value of the assets bought and sold within the derivatives contracts) are shown in the following table.

31 March 2010		31 March 2011		
Net value £millions	**Fund**	**Asset £millions**	**Liability £millions**	**Net value £millions**
	Forward foreign-exchange contracts			
-0.373	Standard Life Fixed Interest	36.843	-38.487	-1.644
-0.112	Aviva	8.049	-8.310	-0.261
-5.028	Record Active Fund	-	-	
-7.116	Record Passive Fund	269.223	-271.698	-2.475
-12.629		**314.115**	**-318.495**	**-4.380**
	Government bond futures			
-	UK government gilt future	2.343	-2.343	-
-	Euro bond futures	0.432	-0.432	-
-	US government treasury future	-	-	-
-		**2.775**	**-2.775**	**-**
-12.629		**316.890**	**-321.270**	**-4.380**

Note 13: Stock lending

31 March 2010		31 March 2011
£millions		**£millions**
32.263	Value of stock on loan	30.398
35.300	Record Active Fund	32.254
%	**Form of collateral provided**	**%**
15.1	UK Government debt	20.1
15.1	UK equities	13.8
59.1	US equities	61.1
10.7	€ denominated corporate debt	5.0
100.0		100.0

Note 14: Membership statistics

As at 31 March	2006	2007	2008	2009	2010	2011
Active scheme members	**18,463**	**19,071**	**19,886**	**20,022**	**20,450**	**20,492**
Pension holders						
Current being paid	8,818	9,126	9,706	10,126	10,821	11,664
Deferred (to be paid in the future)	9,025	10,059	10,897	12,787	13,817	14,923
Total	**36,306**	**38,256**	**40,489**	**42,935**	**45,088**	**47,079**
Contributors for each current pension holder	2.09	2.09	2.05	1.98	1.89	1.76

Note 15: Additional voluntary contributions

During the year some members of the fund paid additional voluntary contributions (AVCs) to Equitable Life and Prudential to buy extra pension benefits when they retire. The pension fund accounts, in accordance with regulation 5 (2)(C) of the Pension Scheme (Management and Investment of Funds) Regulations 1998 do not include AVC transactions. The contributions for the year and the outstanding value of assets invested via AVCs at 31 March are shown in the following tables.

31 March 2010 £millions		31 March 2011 £millions
	Value of additional voluntary contributions	
3.815	Prudential	3.834
0.772	Equitable Life	0.636
4.587		4.470

2009/10 £millions		2010/11 £millions
	Additional voluntary contributions paid during the year	
0.544	Prudential	0.658
0.003	Equitable Life	0.001
0.547		0.659

Note 16: Related Parties

Pensions Committee members, Sam Crabb, Caroline Moore, Sarah Miller and John Wilkins are members of the Somerset County Council Pension Scheme.

Pensions Committee members Sarah Miller and Ian Dewey have personal investments that are managed by Jupiter Asset Management. Ian Dewey also has a personal holding in Jupiter Fund Management plc shares.

The fund holds shares in a number of companies that Somerset County Council and the other member bodies have commercial dealings with. Decisions about the suitability of companies for the fund to invest in are taken by Standard Life, JP Morgan Asset Management, Jupiter Asset Management, UBS Global Asset Management, Nomura Asset Management, Pioneer Investments and Aviva Investors for their parts of the fund, without referring to the county council, its officers or other member bodies. Decisions about suitable investments for the in-house fund are made based only on the recommendations of a quantitative analysis system, so officers do not have the power to include or exclude specific companies.

No other related party transactions other than normal contributions, benefits and transfers occurred during the year. In note 1 we analyse the total contributions we were due to receive and benefits the fund paid for scheduled and admitted bodies.

Note 17: Statement of investment principles

We have prepared a Statement of investment principles, which explains the strategies and policies that we use in the administration of the Pension Fund investments. The full details of the statement are published in the Pension Fund Annual report and Financial Statement.

Note 18: Contingent liabilities

There were no contingent liabilities as at 31 March 2011.

Note 19: Post balance sheet events

There were no post balance sheet events as at 30th June 2011.

Note 20: Actuarial valuation

An actuarial valuation measures the fund’s ability to meet its long-term liabilities (future costs). By law, we have to have actuarial valuations every three years. Our actuary assesses the likely growth in the value of the fund, and the probable amounts we will have to pay in pensions for current and former employees. The difference between the value of the fund’s assets and its liabilities decides the amount we have to contribute to the fund. At the date of the last actuarial valuation (31 March 2010), the market value of the fund was £1,075.5 million, which was equal to 77% of the fund’s discounted liabilities. We are trying to increase the value of the fund to 100% of its liabilities. We are moving towards this by making contributions in 2011/12 of 13.5% of payroll plus a sum of £3.77m (15.1% of payroll in 2010/11). The deficit on the fund is proposed to be recovered from employer’s contributions over a period of no more than 25 years.

The actuary uses the projected unit method to estimate the cost of future benefits from the pension scheme.

The last valuation was done based on the figures from 31 March 2010 and we will introduce any changes to our contribution from 1 April 2011. The most significant assumptions used at this

valuation in March 2010 for future service were as follows. These assumptions do not match Somerset County Council's because this is as at 31 March 2010 and Somerset County Council's is as at 31 March 2011.

2010 actuarial valuation significant assumptions	% a year
Rate of return on investments	7.0
Salary and earnings increase	5.0
Rate of increase in pensions above the guaranteed minimum	3.0

More information about the pension fund

The accounts of the fund do not form part of our accounts as a whole. As a result, we do not include these in our net assets statement or fund account.

Glossary of terms

This section explains complicated terms that we have used throughout this document.

Accruals
An amount shown in our accounts to cover money we owe or money owed to us, in the financial year, but which we will not actually pay or receive until the following year. (See also Creditors and Debtors.)

Accumulated funds
Reserves that have built up over a period of time.

Actuarial gains or losses
The actuarial gains or losses to the pension fund are made up of:
- actual gains or losses to the value of the fund's investments;
- changes to the number, age and sex of staff that contribute to the pension fund; and
- changes to the assumptions about the growth of investments and the liabilities of the scheme.

Admitted organisations
Organisations that take part in the Local Government Pension Scheme with our agreement. Examples of these organisations include housing associations, development agencies and companies providing services that we used to provide. (See also Scheduled organisations.)

Apportionment
A way of sharing the cost of management and administration to services using an appropriate method (for example, the amount of floor space taken up by accommodation-related support services).

Associate
An organisation or company other than a subsidiary or joint venture in which we have an interest and over whose operating and financial policies we have a lot of influence.

Best value
Under the Local Government Act 1999, we must constantly aim to improve our services. We must review all our functions within a five-year period. The aim is to make a real and positive difference to services which local people receive.

Biodegradable municipal waste
Household waste that naturally breaks down or rots over time.

Capital charges
Charges we make to services for using fixed assets when providing the service.

Capital contributions and grants
Money we receive towards paying for capital spending on a particular service or scheme.

Capital financing charges
The charge to our capital financing reserve for repaying loans. It does not include:

- interest on the loans; or
- the direct cost of buying assets in the year.

Capital receipts
The proceeds from selling assets such as buildings.

Capital spending
Our spending on buying or creating a fixed asset or spending that adds to and does not just maintain the value of an existing asset, for example, land, buildings, roads, new furniture, vehicles and equipment.

Capitalisation
Capitalisation of an asset takes place when its cost it is written off bit by bit, over its useful life, instead of writing off the cost in the year the asset was bought.

Carry-forwards
Revenue budgets we have not spent, which services can use in future years.

Cash-limited budgets
Fixed amounts of money, including allowances for pay and price increases, given to departments to run their services. All spending should be met from these budgets. This also involves flexibility in carrying forward underspending and overspending.

Central Government Grants
There are different types of grant.

- Revenue Support Grant – the main government grant to support local-authority services.
- Area Based Grant – a general grant allocated to authorities as extra revenue.
- Specific service grants – payments from the Government to cover local-authority spending on a particular service or project (for example, Standards Fund for schools). Specific grants are often a fixed percentage of the costs of a service or project.
- Supplementary grants – grants towards capital spending for highway schemes.

CIPFA
The Chartered Institute of Public Finance and Accountancy. This is the professional institute governing how public money is used and how it has to be reported.

Collection funds
Accounts which district councils keep to record the amounts of council tax collected.

Comfund
We operate a joint scheme called the Comfund to earn the best possible interest on our investments. We invest our spare reserves into this scheme, together with investments from other organisations who also take part.

Community assets
Assets that we plan to hold forever, have no set useful life, and may have restrictions on how we sell or otherwise dispose of them. Examples of community assets are parks, historic buildings and various conservation works.

Contingent liability
A possible liability which may arise when we know the outcome of claims made against us which have not yet been settled.

Co-optee
A person who is not a member of the council but is a member of a committee or sub-committee of the council.

Corporate and democratic core
Spending relating to our need to co-ordinate and account for the many services we provide to the public.

Creditors
People we owe money to for work, goods or services we receive but which we have not paid for by the end of the financial year.

Current value
The cost of an asset if bought in the current year.

Debtors
People who owe us money that we are due to receive but which we have not been paid by the end of the financial year.

Deficit
There are two types of deficits. A fund is said to be in deficit when its liabilities are higher than its assets. An in-year deficit is achieved when spending is higher than income.

Depreciation
The reduction in the value of assets, for example, through wear and tear.

Ex-dividend
A share is 'ex-dividend' (or ex-div) on a date set by a company when current shareholders are entitled to a dividend on their holding. Even if the holding is sold, the former owner will receive the income. On that date, the market price of a share will be adjusted to reflect the income due to the holder. (For example, a share which goes 'ex-div' with a dividend of 10p will see the market price reduce by that amount.) Stock may be sold 'ex-div' (without dividend entitlement) or 'cum-div' (with dividend entitlement).

Fair value
The price at which we could buy or sell an asset or loan in a transaction with another organisation, less any grants we receive towards buying or using that asset.

Finance leases
Leases where we treat the organisation paying the lease as if they own the goods. The organisation gains the profits that would come with ownership but it also suffers the losses. (See Operating leases.)

Financing transactions
Also known as interest and investment income. They mainly relate to interest payments and receipts associated with managing our cash flow and reserves during the year.

Fixed assets
Items such as land, buildings, vehicles and major items of equipment, which benefit us over more than one year.

FRS
A financial reporting standard issued by the Accounting Standards Board. FRSs are gradually replacing SSAPs. Our accounts keep to these standards where they apply to local authorities.

General reserves
The amounts we have built up this year, and over earlier years, that we have not set aside for specific purposes.

Gross book value
This is the original or revalued cost of an asset before any depreciation is taken off it. (See also Net Book Value.)

Historical cost
What a fixed asset cost us to buy originally.

IFRIC
International Financial Reporting Interpretations Committee. IFRIC reviews newly identified financial reporting issues not specifically addressed in IFRS or issues where unsatisfactory or conflicting interpretations have developed, with a goal to reaching a consensus on the appropriate treatment.

IFRS
International Financial Reporting Standards are issued and set by the International Accounting Standards Board (IASB). These are standards that companies and organisations follow when compiling financial statements and replace FRS.

Impairment
Where an asset's value has been reduced by physical deterioration or other factors beyond usual wear and tear. The asset's value in the accounts also has to be reduced to reflect this impairment.

Infrastructure
A fixed asset that cannot be taken away or transferred, and which we can only continue to benefit from by actually using it. Examples of infrastructure are roads, bridges and footpaths.

Intangible assets
Non-financial fixed assets that do not exist physically but that the council owns or has a right to use. Examples include software licences and brand names like 'Coca'Cola'.

Levies
The money we pay to the Environment Agency (for flood defence and land drainage purposes) and the Exmoor National Park Authority.

Long-term investments
Those investments which we plan to hold on a continuous basis (for example, shares in South West One).

Material error
A mistake in the accounts that could be serious enough to influence the reader's opinion of our financial performance or position.

Minimum debt repayment or minimum revenue provision
The amount we have to set aside to repay loans. It is set at 4% of our total borrowing.

National Non-Domestic Rate (NNDR) income (also known as Uniform Business Rate, or UBR)
District councils collect this from non-domestic properties, at a national rate set by the Government. The proceeds are pooled nationally and redistributed to areas according to the size of their population.

Net book value
The value of an asset as recorded in the accounts. It is usually the net current replacement or original cost less any depreciation we have charged.

Net current replacement cost
The cost of replacing an asset in its existing condition and use.

Net present value
The net present value (NPV) of an asset is the current net value of the future receipts and payments associated with it.

Net realisable value
The selling value of an asset less the costs of selling it.

Net service underspend
A service's total spending less that service's allocated budget, plus money that is carried forward from previous years.

Netted off
Where the money we are due to pay is reduced by the money that is owed to us.

Non-distributed costs
Specific overheads relating to unused assets and certain pension costs for employees' service in previous years. These are not allocated to service departments because they do not relate to the current year's cost of providing the service.

Non-funded pension schemes
Pension schemes that do not have an actual fund from which pensions are paid and contributions are made into. Instead payments are made to current pensioners directly from the year's budget. The teachers' pension scheme is an example of a non-funded scheme that we run.

Notionally funded pension schemes
A form of non-funded pension scheme that are treated similarly to funded schemes. There is no stock of investments, but employer contribution rates are set as if there were investments, based upon figures set by government actuaries. The Teachers' Pension Scheme is notionally funded.

Operating leases
Under this type of lease, the risks and rewards of ownership of the leased goods stay with the company leasing out the goods.

Operational assets
Those assets (for example, land and buildings) that we use so we can provide services.

Other operating costs
Includes spending on buildings, fuel, light, rent, rates, buying furniture and equipment, administration and other costs.

Pensions equalisation reserve
Money we have set aside to maintain the level of pension charges to revenue for social services schemes jointly paid for by the health authority.

Precept
What we demand from the collection funds maintained by the district councils.

Principal
The original amount borrowed. It does not include interest or other charges.

Procurement
The process of gaining the use of supplies, services and construction work.

Projected unit method
A common method by which actuaries estimate the cost of future benefits to a pension scheme. The method works out the costs of future benefits members are expected to earn over a period (usually a year) following the valuation date, allowing for future increases in pay until retirement or the date a member leaves service.

Provisions
Money we keep to pay for known future costs.

Provision for credit liabilities
Money we set aside to repay debts or to cover spending which we have borrowed money for. We include these details in the Capital Adjustment Account.

Prudential Code
The Prudential Code has been introduced by the regulations supporting the Local Government Act 2003. Local authorities can borrow money to pay for capital spending in a similar way as people can get a mortgage to buy a house. Until April 2004, the Government used to tell local authorities how much they could borrow. This code replaces central government control with self-regulation — each local authority is now responsible for deciding how much it can afford to borrow. Under the regulations, when we are making this decision we must keep within the Prudential Code, which sets out the principles that local authorities must follow. These include the following.

- Affordability – can we afford to make the repayments?
- Prudence – are we planning to borrow sensibly?
- Value for money – will the loan pay for something that is good value for money?
- Service delivery – will the loan help us to provide our services in the way we want to?

PWLB
The Public Works Loan Board, a government agency which lends money to the public sector.

Remuneration
Includes taxable salary payments to employees less employees' pension contributions, together with non-taxable payments when employment ends (including redundancy, pension enhancement payments, and pay in lieu of notice), taxable expense allowances and any other taxable benefits.

Revenue spending
The day-to-day spending on employment costs, other operating costs and capital charges, less any income from fees, and charges.

Ring-fenced grant
This is money that can only be used for certain things.

SAP
Our computerised accounting and procurement system.

Scheduled organisations
Local government organisations that have automatic rights to take part in the Local Government Pension Scheme. Examples include the County Council, Police Authority, district and town councils, further-education colleges, National Park Authority, magistrates' courts and the probation service. (See also Admitted organisations.)

SORP
A statement of recommended practice issued by the Accounting Standards Board or by one of the accountancy institutes (such as CIPFA). SORPs were developed in the public interest and set out best accounting practice. They were produced for subjects for which it was not considered appropriate to issue a financial reporting standard. From 1st April 2010, the SORP has been superseded by the IFRS – based Code of Practice on Local Authority Accounting (The Code).

SSAP
A statement of standard accounting practice issued by the Accounting Standards Committee and adopted by the organisation which replaced it, the Accounting Standards Board. Our accounts keep to SSAPs where they apply to local authorities.

Surplus
There are two types of surplus. A fund is said to be in surplus when its assets are higher than its liabilities. We achieve an in-year surplus when our income is higher than our spending.

Tangible assets
Operational assets, non-operational assets and assets currently being built.

The Code
The Code of Practice on Local Authority Accounting. Provided by CIPFA this takes over from the SORP and includes the move to international accounting standards. The Code provides details and definitions on subjects for which it was not considered appropriate to issue an international financial reporting standard (IFRS).

Transfer values
Payments made between pension schemes of accumulated pension funds for employees who change their employment.

Venture capital
Finance for companies that are not listed on a stock exchange.

Work-in-progress
The value of work on an unfinished project at the end of the year which we have yet to recover from the client.

Write down
To reduce the value of an asset in a set of accounts.

Write off
To reduce the value of an asset to nothing in a set of accounts.

More information

If you have any comments or feedback on these accounts, please contact us. This will help us to provide a more informative and useful document.

For more information on these accounts, or for extra copies, please write to:

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These accounts are also available on the internet at www.somerset.gov.uk/accounts

These accounts are also available in Braille, in large print, on tape and on CD and we can translate them into different languages.

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